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West Midlands ERDF Operational Programme 2007-13: Mid-Term Performance Evaluation

A Final Report by
Regeneris Consulting

Advantage West Midlands

West Midlands ERDF Operational Programme 2007-13: Mid-Term Performance Evaluation

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Regeneris Consulting Ltd

One Ashley Road

Altrincham, Cheshire

WA14 2DT

Tel: 0161 926 9214

Web: www.regeneris.co.uk

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Executive Summary

Purpose of the Evaluation

i. The West Midlands European Regional Development Fund (ERDF) Programme 2007-13 is funded through the Regional Competitiveness and Employment Objective (the successor to Objectives 2 & 3 from the previous programming period). It has a total ERDF allocation of €400m to the West Midlands, plus match funding from partners. The EU Commission set out the aims of the Regional Competitiveness and Employment programmes in the Community Strategic Guidelines and in the enabling regulatory framework established by Council Regulations No.1080/2006 and No.1083/2006.

ii. This report presents the findings of the Interim Programme Performance Evaluation which is the mid-term assessment of the first three years (to the end of May 2011) of delivering the ERDF Programme in the West Midlands. The evaluation has addressed questions around the Programme's continued relevance, the consistency of the Operational Programme, performance to date and recommendations for improving its future delivery in the context of a different operational environment. Section One provides a fuller description of the evaluation objectives and a brief description of the evaluation approach.

Prioritising the Recommendations

iii. In all, the evaluation has made 40 recommendations for the West Midlands Programme to consider. They cover all aspects of the Programme from the overall strategy to its systems and processes, and they are grounded in the findings of the evaluation. Among these recommendations, a number should be regarded as key priorities for action since they are central to its future performance and prospects. The priority recommendations are as follows:

Programme Strategy

iv. The evaluation recommends only one substantive change (Recommendation 1) to the overall Programme strategy. This is to endorse the formal closure of Priority 4 and the vireing of its remaining allocation to other parts of the Programme.

v. Priority should be also be attached (Recommendation 4) to the development of an impact framework and quantification of impact targets to contribute to a stronger focus on outputs, results and impacts performance.

Programme Progress

vi. Allied to the recommendation about developing an impact target framework, the evaluation points to the need (Recommendation 9) to reinforce performance management processes in terms of outputs and results. This is about both the resources committed to contract management and the provision of performance management information to the Local Management Committee and Sub Group.

vii. There is a need (Recommendation 10) for the Programme to review its position on large company beneficiaries, having reached the 4 per cent threshold set in the Operational Programme. If a decision to seek a change is to be considered, partners need to take account of both the guidelines set down in the Operational Programme and the rules and regulations which govern support to large companies.

Priority 1

viii. No significant changes are recommended for Priority 1. However, in light of continued demand for ERDF to support investments in demonstrator projects, the Programme needs to ensure both that sufficient resources are available and that it focuses on projects which commit to job and business creation (Recommendations 12, 13). Actions should include targeted calls for projects which build on existing knowledge transfer and demonstrator projects to maximise the benefits of current ERDF investments (Recommendation 14).

Priority 2

ix. Key recommendations for Priority 2 centre on the need for partners to continue to coordinate enterprise support and access to finance activity across the West Midlands to reduce the potential for duplication and competition between ERDF funded projects (Recommendation 17). At the same time, this must be balanced by action to maintain the capacity to develop and deliver projects at a particularly challenging time in terms of public finances (Recommendation 20). The evaluation recommends that partners establish a task and finish group to manage these risks to Priority 2 (Recommendation 22).

Priority 3

x. Stronger progress in Priority 3 is critical, particularly in terms of spending ERDF resources. The evaluation makes a number of linked recommendations which set out the steps that the partners and the Programme should take to ensure that the commitment and expenditure of ERDF quickly accelerates (Recommendations 23-29). Together, they are intended to provide a coherent package of measures to focus Priority 3 activity on economic impact (particularly floorspace development), back the development of a JESSICA project if it is feasible and potentially reallocate resources within Priority 3 if package expenditure targets are not met. While the evaluation recommends continuing with the package approach, it also points to the need for tighter application of performance management at package area and project level. Finally, the slow progress to date on delivering against key P3 targets suggests a need to consider revising the outputs and results framework, a step that would need the approval of the European Commission.

Priority 4

xi. The key recommendation for Priority 4 is that the Programme should seek approval from the European Commission for its closure (Recommendation 30). The remaining resources in Priority 4 should be made available for other Priorities, and the evaluation suggests options for partners to consider.

Priority 5

xii. Two recommendations should be highlighted for Priority 5. First, if the Programme's strong track record on the minimisation of errors is to be maintained, it is essential that sufficient resources are available to the European Programme Management Team to sustain it through the remaining period of the Programme (Recommendation 32). At the same time, technical assistance needs to be made available to support the capacity of partners to support the development of projects and the coordination of ERDF activity across the region (Recommendation 33).

Implementation and Management

xiii. Coordination and strategic leadership are critical to the Programme's ability to meet its targets through to its formal closure in 2015. The newly established Local Management Committee (LMC) and Sub Group should play key roles in overseeing the investment frameworks and striking the right balance between investment activity which has regional scale and reach, and support for local priorities (Recommendations 36-39). The evaluation as a whole makes several recommendations about improvements to performance management processes and the LMC also has a critical part to play in achieving this.

Programme Strategy

Overview

xiv. The strategy set by the West Midlands Operational Programme emphasises enterprise, innovation and business competitiveness. The vision identified in the WMOP is:

For the West Midlands ERDF Programme to achieve a significant increase in the productivity of the business base in the West Midlands; to reduce unemployment and inequalities; and ensure that the region's economic growth is achieved in a sustainable manner.

xv. The investment strategy was constructed around five priority axes (Priorities) to which the Programme resources were allocated. There are: Priority 1 - Promoting Innovation and R&D; Priority 2 - Stimulating Enterprise Development; Priority 3 - Achieving Sustainable Urban Development; Priority 4 – Developing Inter-Regional Activity; and Priority 5 - Technical Assistance.

xvi. Overall, the evaluation concludes that the Operational Programme Strategy has offered partners a flexible and adaptable framework through which to invest in activities to support the region's economy through a particularly difficult period. The vision, objectives and priority focus of WMOP remain highly relevant to the socio-economic challenges the region faces. Whilst there has been a great deal of change in socio-economic circumstances and also major changes in the policy and delivery landscape, the strategy remains largely relevant and consistent.

xvii. The key messages drawn from this review of the Programme strategy are:

- There have been significant changes in the socio-economic conditions since the strategy was developed. Rates of job creation have fallen significantly compared to pre-recession levels, while businesses have faced unprecedented difficulties in securing finance from the banking system, and exceptionally testing trading conditions. While the Programme set out to support the continued transition of the West Midlands economy, higher levels of productivity and increase value added, mitigating the effects of the severe recession quickly became a strategic priority after 2008. The strategy provided partners with the ability to use ERDF resources to respond to these conditions.

- Wide ranging and substantial changes in policy and funding which have presented a significant test of the Programme strategy. In particular, the policy shift from regional to local governance represents a fundamental change in the organisational context and delivery frameworks for the Programme. Renewed emphasis on localism, including the development of Local Enterprise Partnerships, are changing expectations about the scale and nature of the investments the Programme will make.
- At the same time, these policy changes also provide opportunities to which the Programme needs to respond strategically. With the closure of AWM and the loss of a critical source of match funding, there is a need to engage creatively with both public and private sector partners across the West Midlands to secure new ERDF investments. In this respect, the Programme is well served by a strategy and a strong partnership that has underpinned it, and this should enable a positive response to these opportunities.

xviii. The evaluation has found the strategy to still be fit for purpose, being largely both coherent, relevant and consistent. The emphasis which it placed on innovation and enterprise is a particularly important feature and partners need to maintain this focus through to the conclusion of the Programme. There is a need to make some adjustments within the overall strategy and these recommendations are set out below.

Priority Strategies

xix. The following conclusions have been drawn from the review of the individual Priority strategies.

- **Priority 1** – The overall strategy is sound and provides a good platform for ERDF investment to support R&D activity and increase engagement between the region's knowledge base (HEIs, research centres) and its business base. The P1 strategy is anchored in the wider strategic framework for innovation in the West Midlands, particularly the West Midlands Economic Strategy, the region's Innovation Strategy and latterly the Birmingham Science City initiative. There are no significant gaps in the strategy, although the relatively narrow definition of indicative activities in Portfolios 1 and 3 and a lack of sufficiently clear distinction between Portfolios 1 and 2 has influenced the flow of investments across Priority 1. Linkages between Priorities 1 and 2 could also have been much clearer in the Operational Programme. The evaluation has not identified a need for any significant changes to the strategy.
- **Priority 2** – The evaluation has assessed the Priority 2 investment strategy as being robust and flexible. It benefited from being firmly rooted in the West Midlands Economic Strategy, and it has strongly reflected the priorities of Advantage West Midlands and the region's Enterprise Board. Links to the enterprise activity generated through Priority 1 could have been clearer in the Operational Programme, and there is also some overlap with the indicative innovation support activities identified in Priority 1. There has also been some lack of clarity about allocations to Portfolios, and the strategy would have benefited from a simpler approach to the setting out of indicative activities. The strategy continues to reflect the key

opportunities and challenges for enterprise in the West Midlands going forward, and the key challenge will be to strike an effective balance between enterprise development activity on a regional scale and the greater emphasis on local priorities which has resulted from policy changes since the 2010 UK general election.

- **Priority 3** – To some degree the P3 strategy reflected the objectives of the ERDF programme and those of the West Midlands Economic Strategy in terms of delivering economic growth, tackling areas with disadvantage, and linking those people within these areas to economic opportunities. However, the wide range of priorities it identified meant it lacked coherence in its own right. The breadth of the indicative activities contributed to some early uncertainty about the types of interventions that would be eligible for ERDF. It may also have hindered the package approach, since the strategy could have been clearer about how different types of intervention might be expected to work together. The evaluation has concluded that the aspects of the approach to delivering Priority 3 need to be refreshed. There should be a stronger strategic focus on economic impact, translated into projects that will directly contribute to new job creation, should be given renewed emphasis. There should also be more effective synergies between the activities funded under Priority 3, with the clearer aim of securing more coherence between projects within the packages.
- **Priority 4** – The inclusion of a specific Priority on inter-regional cooperation reflected the West Midlands track record of constructive engagement with European Union partners. However, the evaluation concludes that the Priority 4 strategy lacked sufficient clarity about both its rationale as part of the Operational Programme and the activities the Programme would invest in. Having largely achieved the output and results targets set for Priority 4 and with some difficulties evident in securing suitable projects, the decision taken by the Programme to close it down to new applications has been found to be justified.
- **Priority 5** – The Programme's strategy for investing Technical Assistance funding has been assessed as sound, with the emphasis having been placed on providing critical support for the management and administration of the Programme, and on limited investment to boost the capacity of partners to work with the Programme. While this approach remains highly relevant to the needs of the Programme, the key strategic challenge relates to the future availability of match funding following the withdrawal of Single Programme funding.

Recommendations

xx. The evaluation has highlighted a number of issues that the partnership needs to consider as it gears up for the remaining period of the Programme.

Recommendation 1: No major changes to the Operational Programme strategy required

xxi. The evaluation recommends that the Programme does not make significant and substantive changes to the Operational Programme strategy, including major changes to the allocations to individual Priorities with the exception of Priority 4 (see recommendations for Priority 4 review).

Recommendation 2: Clarify indicative activities and address inconsistencies within Priorities

xxii. The Programme would benefit from action to adjust and clarify the individual Priority strategies in specific places. These centre on clearer descriptions of indicative activities and the removal of potential areas of duplication. Specific recommendations are made in the report about Portfolios 1 and 2 in Priority 1 and the overall portfolio framework for Priority 2. The Programme might also pursue this through the descriptions of activities in future calls for investment.

Recommendation 3: Strengthen strategic connections between Priorities

xxiii. There is a particular need to strengthen links between Priorities 1 and 2 where the Programme's strategy for investment in innovation and the commercialisation of R&D should be more clearly linked to its broader strategy for enterprise development in the West Midlands.

Recommendation 4: Develop a Programme impact framework and quantify impact targets

xxiv. The absence of a framework of Programme impact targets is a strategically important issue that needs to be addressed. The economic impacts that the Programme seeks to generate should now be quantified and an impact forecasting exercise should be carried out. This should play a central role in guiding future investment by the Programme.

Recommendation 5: Review the Socio-economic baseline

xxv. The Operational Programme includes a comprehensive baseline which was updated at the end of 2010. However, it will be helpful to the partners and the future evaluators to have a clearer and narrower set of key contextual indicators upon which the Programme is seeking to impact.

Programme Progress

Overview

xxvi. The West Midlands Programme has made good progress to date given the challenging conditions that partners have faced over the past three years. The key headlines on Programme expenditure and commitment at the end of May 2011 are:

- 20% defrayed expenditure (£71 million)
- 27% (£96 million) committed
- 18% (£64 million) at full application stage
- Headroom of 33% (£119 million) with £5 million showing in the Programme's data on the pipeline in May 2011.
- The recently concluded open call for projects in Priorities 1 and 2 (June 2011) produced initial applications with a total ERDF value of £100 million. While only a proportion of these will contract with the Programme, it points to a good pipeline of future projects.

xxvii. The following specific conclusions are drawn from the assessment:

- Good progress on defrayed ERDF expenditure: Good progress has been made on actual expenditure, although the picture varies significantly across the five Priorities. Priorities 1, 2 and 5 have all defrayed in excess of 20% of their allocations. Priority 3 has been the weak performer, with under 2% of expenditure defrayed at the end of

May 2011. Priority 4 has also been a weak performer, although the Programme has responded by closing the Priority to new applicants and considering how P4 resources might be reallocated.

- Reasonably good progress in committing ERDF and building a pipeline of future investments: Again, the picture varies across the individual Priorities. Priorities 1 and 2 are in a good position in terms of project activity that has secured full approval and are currently in the contracting stage. In both cases, the pipeline (projects which have been endorsed post-outline) is more limited, partly reflecting the significant policy and funding changes that have occurred over the past year. The pipeline for P1 and Priority 2 should significantly expand following a successful open call for new projects which concluded in June 2011 (projects proposals seeking ERDF in excess of £100m). Despite slow progress on actual expenditure, Priority 3 is now in a much stronger position in terms of the current pipeline, with projects accounting for 35% of the allocation for P3 at full application stage.
- Significant challenges ahead: While steady progress has been made to date, the Programme faces a challenging future if it is to achieve the contracting rates required to fully invest its allocation of ERDF resources. Prior to 2010, the Programme was substantially matched with Single Programme funding, benefiting from the constructive linkages that developed with AWM's wider activities. With the loss of Single Programme funding, the closure of AWM and an extended period of public sector austerity measures ahead, there is less certainty about both the Programme's capacity to develop new projects and the related ability of applicants to secure match funding.
- A mixed picture on outputs and results achieved to date: Some indicators have already been substantially exceeded (eg. people assisted to start a business, jobs safeguarded), whilst current project commitments should achieve many others. This position largely reflects partners' desires to establish achievable targets. Performance in achieving the Programme's physical development targets (floorspace developed, brownfield land remediated) has been slow, reflecting the weak performance of Priority 3 but also the challenging nature of a few of the targets (in particular floorspace developed, especially the BREEAM component of this target).
- Outputs and results framework needs to be reviewed: The programme was prudent in selecting a limited number of indicators (avoiding those requiring more onerous evidence of achievement) and in setting what were considered to be achievable targets. However, as a result the framework is not as coherent or as useful as it could be, and now it has much less value as a guide to future investment.
- Strongly Lisbon compliant: The Operational Programme is strongly Lisbon Compliant, as are the investments it has made to date. This reflects in particular the progress partners have made in investing resources in innovation and enterprise development activity in Priorities 1 and 2. Currently the Programme comfortably exceeds the EU's requirement to invest a minimum of 75% of resources in Lisbon compliant activities, and is on track to meet the ambitious 88% Lisbon compliance identified by the Operational Programme in assessing the types of investments it would make. There is little scope to invest further in non-Lisbon compliant activity if the Programme is to meet this 88% compliance figure, and the Programme may need to consider whether to bring its target closer to the formal EU threshold (75%) if decisions are taken to invest in more non-Lisbon compliant projects.

Recommendations

xxviii. The following recommendations are made about the overall performance of the Programme and its responses to the challenges of achieving strong performance over the remaining Programme period.

Recommendation 6: No significant change required to investment approach and allocations

xxix. The evaluation has not identified a requirement for wholesale changes either to the Programme's overall approach to investment or to the allocations to the main Priorities (with one exception which is considered in the following recommendation). This is consistent with the assessment of the Programme strategy which suggests that it continues to reflect the key opportunities and challenges for the West Midlands. However, some changes are required within individual Priorities and these are identified elsewhere in the evaluation report. *If partners have aspirations for significant additional resource for specific activities within a Priority, these will need to be meet primarily within the existing Priority allocation.*

Recommendation 7: Formally close Priority 4 to new applications and vire resources

xxx. The exception on the allocation of Programme resources is Priority 4 which should now be formally closed down to new applications and the uncommitted £4.4 million vired into other priorities. The evaluation report (Priority 4 section) makes specific suggestions about options for the Programme but use of these resources to support additional activities in other Priorities could be the preferred approach (although this is subject to aspects of uncertainty which need to be resolved prior to a final decision by the LMC).

Recommendation 8: Retain a strong focus on project quality.

xxxi. Whilst the programme is under pressure to increase the rate of commitment to projects, especially in Priority 3, it must not lose its focus on approving high quality projects. Of particular importance is the approval of projects which will make a direct and significant contribution to enhanced regional economic performance and job creation. Options to achieve this include specific guidance to potential applicants about the types of outputs and results the Programme is looking to achieve, and the adjustment of project appraisal processes to give additional weight to these criteria.

Recommendation 9: Focus on output and results performance.

xxxii. With substantial numbers of projects now in delivery, the Programme should focus more on outputs and results performance. This includes how effectively projects are delivering contracted outputs and results, where significant problems are arising and the extent to which commitments and the project pipeline will exceed, meet or undershoot targets. Although challenging given current administrative resource constraints, the Programme should look to further strengthen its contract monitoring processes in terms of both achievements and risks on outputs and results performance. The Programme has already recognised the need to produce more in-depth data on outputs and results performance and to ensure that this aspect of performance management is dealt with more systematically by the LMC going forward.

Recommendation 10: Review the Programme's position on large company beneficiaries

xxxiii. It is understood that the Programme has reached or slightly exceeded the 4% limit it set on large company beneficiaries as proportion of all beneficiaries of ERDF projects. While the ERDF regulations permit Programmes to support some large companies, state aid rules and other aspects of competition law mean that strict criteria have been applied in the West Midlands and elsewhere on the extent and type of support that can be provided. The Operational Programme also indicated that larger companies would be supported where necessary for the 'satisfactory implementation of the operation', with the focus put on supply chain, knowledge transfer, innovation and new technologies including environmental technologies. For the Programme to be able to continue to work with large companies (eg. as partners in collaborative projects in Priority 1), there is a need both to clearly establish the volume and nature of large companies that have already benefited from the Programme and to explore how further activity with large companies might be accommodated. One option may be for the LMC to take a decision to seek approval from the European Commission for a small increase in the threshold, although any decision would need to be informed by a review of evidence on the level of increase likely to be appropriate given future investments by the Programme rather than a simple adjustment to the ceiling. It will also need to take account of the Operational Programme and the clear framework of regulations which influence the way that large companies can be involved in ERDF programmes (eg. Article 55 rules on revenue generation).

Review of Priority One

Overview

xxxiv. Priority 1 sets out to promote innovation, research and development in the West Midlands, with a particular focus on five of the region's business clusters identified as having the greatest potential and need for innovation. At the heart of Priority 1 was evidence of lagging performance in commercial R&D investment, a lack of innovation within the SME base and a need to strengthen links between the research base and businesses in the region.

xxxv. Priority 1 was allocated €145 million, representing £124.7 million at the current exchange rate. This amounted to 36% of the overall Programme ERDF allocation, a level consistent with the requirement that ERDF competitiveness programmes focus on innovation and enterprise.

xxxvi. The evaluation has drawn the following conclusions about progress in Priority 1 to date and its future focus:

- Clear disparity between the volume and value of investments the Programme has made in Portfolios 1 and 3 and Portfolios 2 and 4 (there has been limited spend or commitment of ERDF in portfolios 1 and 3). A range of reasons have been cited for this disparity relating both to the description of the indicative activities set out in the Operational Programme but more importantly to the level of demand the Programme has seen for ERDF across the different portfolios. This points to a need for some reconfiguration of the Priority 1 investment strategy.
- A strong portfolio of HEI led investments in demonstrators and other research intensive activities the Programme has assembled in P1. Universities are the dominant applicant and lead delivery organisation in P1 and the signs are that they will continue to occupy this position through much of the remainder of the Programme. There is a strong likelihood that this will generate more demand for

Portfolio 2 and particularly Portfolio 4 type investments. In considering the future focus of Priority 1, there is a balance for the Programme to consider between:

- accepting continued strong demand from institutions that have secured the majority of P1 investment to date but have both the strategic drive and match funding to ensure a continued flow of ERDF investment into P1 projects
- the potential and need to diversify the range of organisations delivering P1 projects.

- The strength of the partnership that has developed between HEIs, the Programme, AWM and other public/private organisations centrally involved in innovation in the region. This has helped to ensure a strong fit between the Programme and well-established priorities for investment in research and development in the West Midlands, as well as the commercialisation agenda. It has also helped to encourage a coordinated approach to investment which has in turn helped to secure larger scale collaborative projects, including a number operating across the region as a whole.
- Lack of sufficiently clear linkages between Priorities 1 and 2 in practice. For example, given the range of support available to businesses through Priority 2, including access to finance, there is a case for considering how these instruments might be used to support spin outs and the commercialisation of R&D funded through Priority 1.

Recommendations

Recommendation 11: Merge Portfolios 1 and 2 and adjust allocation to the merged Portfolio

xxxvii. Primarily for pragmatic reasons, the Programme should now merge Portfolios 1 and 2. There is insufficient clear blue water between activity to stimulate demand for innovation support and knowledge, and activity which actually helps to embed it into SMEs. In its internal review carried out in December 2010, the Programme had already considered the potential need to reduce the overall allocation to Portfolio 1 to 10%. If this is applied now, it would give the merged Portfolios 1 and 2 an allocation of around 40% of Priority 1 resources. This could be reduced further to 35% without significantly compromising the ability of the Programme to achieve its objectives in this area.

Recommendation 12: Reallocate additional Priority 1 resources to Portfolio 4 (demonstrators)

xxxviii. This change in allocation would help the Programme to capture the new opportunities for HEIs to invest that have resulted from the HEIF allocations for the period from 2011-15. It would also reflect the continued, apparently strong demand that partners report for investment in this type of activity. This recommendation should also be subject to the implementation of recommendation 3 below. Reducing the combined Portfolios 1 and 2 to 40% of P1 resources and Portfolio 3 to 10% (from 12%) could enable the Programme to allocate 50% to Portfolio 4 (an increase from 35%). This would create additional headroom, more than covering the pipeline prior to the results of the open call and probably providing resources to cover a reasonable proportion of new investments following the open call.

Recommendation 13: Attach additional weight to future demonstrator project applications which commit to the delivery of new jobs and business creation.

xxxix. Although the Programme has committed funding to projects which should meet the key output and results targets for P1, there is a case for ensuring that higher priority is attached to jobs created/businesses created in decisions about the funding of future demonstrator projects. This could assist the Programme in making decisions about which projects to invest in given the limited remaining resources available for Portfolio 4. However, the evaluation also recognises the continued need to strike a balance between projects which enhance the West Midland's specialist research strengths in the long term, those designed to stimulate interest from and engage with the SME base and those which can deliver significant outputs and results to the Programme.

Recommendation 14: Issue targeted calls for projects which build on existing investments in Priority 1, particularly specific knowledge transfer and demonstrator projects

xl. With a reasonable number of projects now in delivery and limited headroom remaining in Priority 1, there is a case for considering targeted calls for projects which aim to maximise the benefits of existing investments. There should be a focus on revenue investments which could include actions to widen engagement with SMEs or work with SMEs to commercially exploit their exposure to demonstrator technologies.

Recommendation 15: Use additional indicators to measure the effects of P1 Investment

xli. The Programme should do more to capture the results of activities being delivered through P1 and their associated impacts. There are a number of strands to this:

- The inclusion of additional indicators to capture the outputs/results of Priority 1 projects which are not currently included (eg. the inclusion of the employment floorspace indicator would not only capture an output of the demonstrators but also contribute to what is a challenging target across the Programme).
- The use of non-ERDF indicators which tell a more comprehensive story about the benefits of investments in innovation activity (eg. new licensing agreements, new patents approved) and other measures (eg. equity investments by international companies).
- To be more demanding of the demonstrator projects in committing to the delivery of business assists, job and business creation.

Recommendation 16: Strengthen linkages between Priorities 1 and 2

xlii. The Programme needs to consider ways in which SMEs being supported by Priority 1 projects can be more effectively guided towards business and financial support available through Priority 2 projects. While the evaluation has heard evidence of these linkages being made in practice (eg. referrals to finance providers), there is also evidence to suggest that these linkages are not being developed systematically. In addition, with the closure of AWM and Business Link, there is a significant risk that some SMEs and entrepreneurs that are supported through priority 1 projects may find it more difficult to access further business support. A simple on-line resource that summarised the business support products which continue to be funded by ERDF might be a useful tool, although it is recognised that there are challenges funding this through Technical Assistance.

Review of Priority Two

Overview

xliii. Priority 2 sets out with a clear remit to improve regional economic performance by increasing levels of enterprise in the West Midlands. The priority was designed to support activities which would improve performance of existing businesses, embed the principles of innovation and sustainability and stimulate new business start ups. Priority 2 was allocated €135 million, representing £119.9 million at the current exchange rate, or 34% of the Programme's resources.

xliv. The evaluation has drawn the following conclusions about progress in Priority 2 to date and its future focus:

- Priority 2 has made good progress to date in terms of committing investment and securing progress on output and result targets. The strong progress made to date is related to the following factors:
  - ➢ Securing early commitments to large scale business support projects that address key priority objectives by matching ERDF with Single Programme and Business Link funds.
  - ➢ Drawing on pre-existing relationships amongst key players in the region (e.g. Business Link, Regional Finance Forum) helped to get key projects up and running quickly. AWM's role in coordinating relationships and binding partners together was also helpful here.
  - ➢ Ensuring investment in a broad array of support by supplementing large scale business support projects with smaller, more specialists projects (particularly those delivered through the region's cluster organisations)
- Although the breadth of projects supported by Priority 2 is substantial, some gaps in the investment framework remain and further gaps look set to open up. Some key strands of activity commissioned early in the priority have recently closed (e.g. Innovation Advisory Service and core Business Link support) and the priority is yet to secure an investment readiness project.
- The strategic objectives of the Priority remain relevant to the region but the Programme needs to overcome a number of significant challenges to ensure that the remaining allocation can be invested in a way that is consistent with the strategy, in particular
  - ➢ Match funding opportunities for projects in Priority 2 are now, on the whole, scarcer and more fragmented.
  - ➢ The closure of organisations that have played a pivotal role to date and uncertain about the funding arrangements for others, Priority 2's ability to draw on the strength of partnership working to drive Priority 2 forwards is more limited.

- Loss of AWM as a coordinating body and match funder could drive a move towards smaller scale, more localised projects, which may result in a loss of strategic focus and scale. In addition, fragmentation of support could lead to duplication, inefficiency and, critically, confusion in the market place.

- Capacity to develop, deliver and manage projects is variable across the region and could be eroded significantly as funding cuts to local authorities take effect and contracts to deliver Business Link support end.

xlv. Difficulties responding to these challenges are likely to be exacerbated by continued uncertainties about how publicly funded business support will be delivered and commissioned. There are some positive signs for the priority however, notably that the pipeline (and responses to the recent open call) point towards a continued appetite for developing and delivering enterprise support projects by local partners and a broader base of match funding sources being drawn into Priority 2 (notably from HEIs and the private sector).

Recommendations

Recommendation 17: LMC should seek to encourage a strategic approach

xlvi. Although Priority 2 clearly has to adjust to a more localised way of operating, maintaining a strategic focus will be essential to ensure that the remaining headroom is committed in a way that is consistent with the strategy. Although time and resource constraints will not allow the development of a formal mechanism for coordination, the need to avoid an overly complex landscape of support and loss of economies of scale brought about by increased localisation remains. The LMC needs to both clearly communicate the need for a strategic approach to partners and align its way of working to promote and encourage coordination amongst applicants at a sensible spatial and thematic scale. To achieve this, the LMC should:

- Issue targeted calls to fill gaps in the investment framework
- Promote the potential role for ERDF in delivering LEP aims
- Prioritise larger scale, higher volume activities
- Consider increasing selected priority targets.

Recommendation 18: Be ready to seize opportunities to add value to national programmes

xlvii. The Programme needs to be prepared to seize opportunities to boost the scope of national programmes in the West Midlands but this is only likely to be possible where there is a genuine role for ERDF in enabling more intensive or enhanced support to be provided. The picture of business support provision nationally is still emerging, but there are a number of programmes which Priority 2 might be well placed to add value to. LMC should explore the potential to match with MAS and the Business Coaching for Growth programmes in addition to seeking out other national opportunities.

Recommendation 19: Explore the further use of SME contributions as match funding and likely impact on demand for and take up of services

xlviii. SME contributions to support costs are becoming an increasingly central component of the match funding mix in Priority 2. As the delivery of support in the Priority is heavily dependent on the level of demand from SMEs, the inclusion of SME contributions to the match funding mix enhances the risk associated with project delivery. The Programme therefore needs to seek a clear understanding of the effect this model could have on the demand for services (and as a result the ability of projects to deliver). To minimise this risk, LMC should set out a clear expectation that applicants must provide evidence for the demand for charged for services and provide guidance on which types of evidence will be acceptable.

Recommendation 20: LMC should explore ways of maintaining enterprise support delivery capacity in the region

xlix. The recent closure of many of the region's larger scale business support programmes alongside reduced public sector funding for intermediaries and other providers looks set to considerably erode delivery capacity in the region. Actions are required now to minimise the loss of capacity. In particular, the Programme should build on its intelligence on current and past providers of Business Link services and explore ways to encourage business support providers that continue to operate in the West Midlands to engage with ERDF.

Recommendation 21: Review the Programme's indicative allocation of 30% of Priority resources to projects providing financial assistance to businesses

l. Demand for ERDF investment to support the development business finance projects (grants, equity, loans, micro-finance) has been strong from the outset. As current commitments stand, the Programme exceeds the indicative threshold of 30% set by the Operational Programme for the proportion of Priority 2 resources for this type of investment. Given tough trading conditions, the continuing effects of the credit crunch and evidence of further, strong demand for ERDF, the Programme now needs to consider whether this threshold should be adjusted in negotiation with the Commission. If further investments are made in equity and loan projects, the Programme needs to ensure that it discourages small scale and localised instruments which increase the risks of duplication and tend to have high management costs as a proportion of the value of their investment funds.

Recommendation 22: Key risks for the Priority should be managed through a task and finish sub-group

li. Given the scale of challenges faced by Priority 2, there is a case for setting up task and finish sub groups to ensure that the key risks to the priority are managed. These groups do not need to be formally constituted, but should be tasked with monitoring (and reporting to LMC on) key areas of priority performance. LMC should set up the following task and finish groups:

- Strategy and delivery. To focus on refining and putting into practice the strategic and delivery changes recommended for Priority 2
- Efficiency and effectiveness of delivery. To focus on assessing the efficiency and effectiveness of the priority's investments as a whole and maintaining a strategic focus for the priority by identifying areas of duplication, highlighting underperforming themes etc.
- Demand for Priority 2 projects. To monitor demand to ensure that Priority 2 delivers on its existing and future commitments.

Review of Priority Three

Overview

lii. Priority 3, Sustainable Urban Development (SUD), was allocated €102 million (£69m in 2007, but now £90.6m at the current exchange rate, May 2011). This accounts for approximately a quarter (26%) of the total Programme allocation. It aims to stimulate renaissance in the key urban areas of the West Midlands. The priority seeks to address the significant concentrations of economic need within the region through generating employment opportunities that are accessible to people within these communities. Delivered using an area based package approach; this gave partners the opportunity to develop a series of inter-linked and complementary projects to tackle challenges of economic need in their localities. The six areas selected were Birmingham, Coventry & Nuneaton, Solihull, North Staffordshire, South Black Country, and North Black Country.

liii. The evaluation has drawn many conclusions about progress in Priority 3 to date and its future focus. The key conclusions are outlined below.

- The breadth of activities supported in the priority provided packages with the flexibility to develop a suite of complementary projects. However, the priority would have benefited from a greater level of specificity and clarity, helping to avoid some of the delays caused by project fit and/or eligibility issues.
- Given the progress made in the last year in some package areas we believe, at this juncture, that a strategy focussing ERDF resource in the Principal Urban Areas (PUA) where there is greatest need is still relevant. However, the EPMT could revisit this issue if further progress is not achieved in package areas in the next year (as an alternative means of committing ERDF). Precisely how capacity to generate and or sustain momentum in package areas is resourced in future will need to be determined by the Local Management Committee.
- Performance in terms of defrayed expenditure has been particularly weak and remains relatively low in comparison to other priorities. However, following progress in recent months, approximately 10% of P3's allocation is now in delivery, with a further 20% at contract stage. It is critical that this is swiftly translated into activity on the ground and defrayment of expenditure. A further third of the allocation is linked to projects at the full application stage.
- Given the processes now in place to assess projects, and with a low project drop-out rate more generally across the Programme, we anticipate that a good proportion of this potential expenditure will translate into funding commitments. However, approximately £9m of committed funding identified at the full application stage is linked to projects which are dependent on private sector demand materialising (eg. building restoration grants, redevelopment of sites). Given challenging economic conditions, there is potential for defrayal slippage if demand does not materialise.
- The value of projects at the committed or full application stage does vary across the package areas. Some packages are closer to their allocation levels than others; some having an element of over-programming (eg. Birmingham), while other areas have a considerable distance to travel to meet their package allocation (eg. North Black Country).
- Match funding has been a major issue for Priority 3. Many projects were severely constrained by the removal of Single Programme funding by AWM. The removal of

this funding led to some significant delays for some projects as new match was sought.

- Of those projects at contract or delivery stage, and those at full application, our analysis indicates that there has been a relatively strong fit with the indicative activity highlighted within the Operational Programme, although perhaps with a lack of focus on activity creating direct economic benefits. However, much of the supported activity supports potential job creation further down the line (eg. activities to address worklessness, development of new floorspace, improved public realm and infrastructure).
- The quantification of the targets may have under-scoped the potential of what could be achieved in package areas. Some targets such as leverage and people assisted into jobs are likely to be significantly exceeded. However, given the economic climate surrounding the delivery of P3, as well as Article 55 restrictions, floorspace targets, including BREEAM floorspace, are unlikely to be met through the current projects. While the pipeline indicates some further potential progress for this target, this is not guaranteed.
- Due to currency exchange rate changes, the total value of Priority 3 has risen to £90.6m. With packages allocated a total of 82.5m, there is approximately £8.1m left outside of the packages to be spent in P3. While it should be noted that this figure can continue to fluctuate, the use of this gain will be subject to further discussions with the Department for Communities and Local Government (CLG), the managing authority for the Programme.
- While there is a need to ensure that expenditure levels improve across the priority, it is important to ensure that P3 invests in quality projects which make a substantive and sustainable difference to the economic prospects in the package areas.

Recommendations

liv. There has been rapid progress in Priority 3 in the last year in terms of project development and project approvals. However, this does present some uncertainties in developing recommendations - especially in relation to the use of remaining package allocations, unallocated P3 resource (particularly the exchange rate gain), and timing issues (the implementation, or not of JESSICA). Some of the recommendations are therefore contingent on these uncertainties and timing issues.

Recommendation 23: Retain the current broad Priority 3 strategy and allocation

lv. There has been no fundamental change in the nature and geographical focus of economic need in the region since 2007 and 2008. Indeed the challenges may have worsened in recent years. There also appears to be sufficient projects (with or without JESSICA) coming through within package areas. Therefore, we believe the strategy is still relevant and recommend: (i) that the Programme retains its strategy of focussing on the current chosen spatial areas within the region; (ii) that there is no change to the list of indicative actions (but note Recommendation 2); and (iii) that there is not a strong case at this stage, given the progress made in the last year, that the allocation for P3 is reduced. However, this recommendation is heavily contingent on: (a) the progress made by packages in the next 3-5 months on further funding commitments; (b) whether or not JESSICA progresses; and (c) what happens to the unallocated exchange rate gain.

lvi. **Recommendation 24: Focus remaining P3 resources on projects which generate the greatest economic impact and deliver significant employment floorspace**

lvii. There has been a focus on funding projects that can be delivered in what has been a difficult economic period. Given that P3 has fallen behind its targets for the delivery of floorspace (and the importance of this particular target in driving economic impact), there is now a strong case for ensuring a focus on approving projects that deliver economic and floorspace outputs from the remaining uncommitted P3 resources. This would need to happen alongside a potential adjustment downwards in the overall floorspace target. There are two broad options to address this:

- LMC/EPMT encourages packages to bring forward projects which will deliver greater economic impact and employment floorspace.
- If this is not successful, a more direct approach whereby the project appraisal process favours those projects which contribute more towards the delivery of P3's economic outputs.

Recommendation 25: If deliverable, a JESSICA scheme would provide a number of advantages for the programme and should be supported

lviii. If deliverable, we support the development of a JESSICA scheme in the region. However, the development of the scheme is a high risk/high reward strategy for the ERDF Programme at this juncture. There is still significant ground to cover in contracting by the end of 2011 particularly developing a bid, as well as identifying how £20m of ERDF could be drawn from P3's allocation. Any failure to deliver would leave a large under spend and output gap. In terms of ERDF funds for the scheme, there are currently some uncertainties about unused allocations (i.e. the £8m gain from currency fluctuations) and potential virements out of Priority 4 (c. £4m), and how these could be used alongside existing package allocations to support JESSICA. While this will need to be determined, partners will need to agree a mechanism to establish how the Programme top-slices existing package allocations to support the scheme. We recommend that any mechanism reflects the level of performance on committed funding in each package (potentially at the end of November). Any contribution to funding JESSICA would be pro rata to each package's share of overall uncommitted expenditure (i.e. resources that have not received full approval).

Recommendation 26: Need to ensure that there is sufficient capacity at the project development stage amongst partners to ensure that they meet the rate of contracting required

lix. Currently package management is only funded until the end of December 2011. However, there is still considerable work required to ensure that good projects are brought forward in package areas over the next 6-12 months. With less capacity and resource at the EPMT, sufficient capacity at the project development stage amongst partners is required. Possible options to address this include:

- Continue with package management for a further period, ensuring managers have updated terms of reference reflecting the need for managers (and colleagues) to be the main source of project development support for applicants.

- Provide resources to the LEP areas covering the package areas. While this would require match funding from the LEP members, it would allow applicants within the LEP areas to have support in developing their projects.

lx. Partners will now need to give further consideration as to how best to resource the package based approach to Priority 3.

Recommendation 27: Enhance performance management at both the package and project level

lxi. Time is currently running out for P3 to improve the required level of commitments and defrayments across the package areas. With this in mind, we recommend that there is a greater emphasis within the EPMT on developing enhanced performance management tools. An N+2 style regime is already in place and this needs to be fully operationalised covering:

- (a) The package level in respect of expenditure commitments
- (b) The project level in respect of actual defrayment.

lxii. At the package level if there is under-commitment compared with the agreed targets, we recommend that this resource is removed from the package and placed in a centralised pool. This pool of funding could then be allocated to an open call for P3 across the packages or the whole of the PUA. At the project level a similar process would also apply, with under-spend removed from the project and placed in a centralised pool. The scale of resources which may become available through this annual central pool will be largely dependent on the outcome of whether a JESSICA scheme happens.

Recommendation 28: Use open calls to spend the resource within the centralised pool in package areas and across the wider PUA

lxiii. The enhanced performance management regime described in recommendation 5 would lead to a centralised pool of P3 resource. The Programme could then implement an open call process across the PUA to generate interest in bringing forward eligible projects. This pool would be open to those packages that have committed much of their resource already, but which require additional resources for further projects (or to supplement existing projects). It could also be open to project applications within the wider PUA. While open calls have been administered in other priorities, the EPMT will need to take a view on whether they would have the capacity to take this forward. If little progress is made in committing resource from this centralised pool (running up to December 2013), there could be a case to further widen access to all urban areas across the region (outside of the PUA) with evidence of need.

Recommendation 29: Revise the outputs and results framework

lxiv. Output performance against targets has been mixed, with particularly poor progress on floorspace outputs (linked to impacts of the recession as well as difficulties conforming to Article 55 regulations for capital projects). In light of those projects coming through the appraisal system, as well as those coming through the pipeline, we recommend that the Programme explores with the Commission the following changes:

- Reduce the floorspace output target by approximately 25% (to c.75,000 sqm).

- Reduce the BREEAM floorspace target for Priority 3 subject to the decision on JESSICA and the reduction of the general floorspace target.
- Significantly reduce the output target level for businesses assisted to improve performance. The types of projects which deliver this type of output are now more likely to be coming forward under P2 activity.

Review of Priority Four

Overview

lxv. The West Midlands is unusual amongst the English regions in having a specific priority and a related funding allocation for inter-regional activity. The purposes of a stand-alone priority 4 were to offer opportunities to partners to engage in collaborative activity with other EU regions in support of WMOP objectives. The Programme allocated a total of £5.3 million to P4 (2% of the overall ERDF allocation).

lxvi. The Programme's decision to close Priority 4 is a reasonable one given the challenges involved in delivering it. The following conclusions support this assessment:

- Despite having brought greater clarity to the Priority 4 investment strategy following the ex-ante evaluation of the Operational Programme, the Programme itself has recognised that a lack of specificity about the types of activity that would be funded resulted in a deficit of good quality project applications.
- The output targets for Priority 4 were largely met with the small number of project investments made during 2008/09. To this end, the need to achieve Programme targets provides no rationale in itself for continuing to invest through Priority 4.
- While there are clearly some benefits to the West Midlands from increased international engagement, it is not clear that the types of activity coming forward for ERDF investment have been essential to the Programme achieving its objectives.

Recommendations

Recommendation 30: Vire the Remaining ERDF Out of P4

lxvii. As noted earlier, there is a good case for vireing the remaining uncommitted ERDF (£4m) to other Priorities. Whilst there could potentially be demand for this resource in all priorities, the strongest cases are for allocation to priorities 3 and 5:

- Priority 3 – the case is explicitly based on the demand for this ERDF to help fund a Jessica project. However, as explained above, the ability to fund and deliver this project is subject to various uncertainties, which will need to be satisfactorily resolved prior to any reallocation occurring.
- Priority 5 - given the loss of Single Programme match funding, the evident need to bolster the capacity of the West Midlands to handle ERDF through the remainder of the Programme and the limited resources remaining in P5, this would be a use for some but not all of the freed up Priority 4 ERDF resource.
- Priorities 1 and 2 – dependent on the outcome of the most recent open call and the level of ERDF commitment that results from this.

Recommendation 31: Consider adjusting Priorities 1 and 2 to enable Priority 4 type

activities to come forward as an integral part of projects under these Priorities

lxviii. If partners retain an appetite for supporting a transnational cooperation and lesson learning dimension to projects, then consideration should be given to writing in these elements of the Programme to Priorities 1 and 2. This would effectively make such activities eligible for ERDF investment as an integral part of projects that come forward during the remainder of the Programme, as well as the potential for existing projects to apply for small amounts of funding to add on this type of activity. The Programme would need to be careful to ensure that scope for transnational activity is more tightly defined than was the case in the original Operational Programme. It should focus explicitly on action which supports the delivery of Priority 1 and 2 projects rather than more general opportunities to become involved in transitional activity.

Review of Priority Five

Overview

lxix. The Programme's investments in Priority 5 have been largely consistent with the Operational Programme strategy which earmarked the lion's share of resources for core management and administrative capacity. The strength of the ERDF partnership, the good progress the Programme has made in securing investments and its record on irregularities in part reflect this selective use of Technical Assistance. The evaluation has drawn the following conclusions about the Programme's investments through Priority 5:

- The value of a hands on approach to Programme management and administration backed by Technical Assistance. Tight management has been a feature of the Programme, and Technical assistance has played an important part in this, bolstering capacity in areas which has enabled the Programme team to take a hands on approach to avoiding problems as projects enter their delivery phase.
- The benefits of outreach activity funded through Priority 5, with demand for more amongst partners. The wide range of applicants to the Programme and the strengths of its marketing and publicity activity reflect the value of outreach activity, including engagement with projects on technical issues, the use of surgeries and advisory sessions for potential applicants and support for wider partnership activities.
- The relatively limited use of Technical Assistance to fund external capacity. These projects have principally sought to enable organisations to access a wide range of European Union funds, including ERDF. The Programme has also maintained a firm line that Technical Assistance should not be used to support ERDF bid writing. The flow of projects into the Programme does not immediately suggest that there have been significant deficits in the region's capacity to develop ERDF projects, and the results of the latest call for projects has shown there to be a wide range of ERDF applicants. However, with the closure of AWM and reductions in public sector funding for organisations across the region, the capacity to bring forward projects is likely to be a bigger challenge for the Programme through to 2013.

Recommendations

lxx. The future focus and use of Technical Assistance presents some significant challenges given changes in ERDF management arrangements nationally, the loss of Single Programme funding and the impact of public sector austerity measures. The evaluation makes the following recommendations about the future focus of Priority 5:

Recommendation 32: Ensure that sufficient Technical Assistance funding is available to support Programme management and administration through to its conclusion

lxxi. It is understood that the Programme has assessed its core resource requirements through the remaining period, and that headroom within the Technical Assistance budget should cover these needs. However, this is based on a lean operation and the evaluation has concluded that there is no surplus capacity within the EPMT. To cope with any risks from a loss of personnel and to be geared up to handle a growing project load (new projects, management of projects in delivery), it is suggested that the Programme considers options for a modest increase in Priority 5 headroom should its current review of resource requirements point to a shortfall. Two options are suggested:

- Consider increasing the intervention rate in Priority 5. With the potential to over achieve in terms of match funding secured in Priority 2, there may be an opportunity to increase the ERDF intervention rate in Priority 5 without undermining the achievement of the overall 50 per cent intervention rate across the Programme. In effect, this means 'surplus' match in Priority 2 which has resulted in a de facto ERDF intervention rate lower than the 50% target rate could be used to offset potential shortages of match funding in Priority 5.
- Increase the Programme's Technical Assistance allocation to from 3 to 4 per cent of the overall Programme budget, the maximum permitted by the regulations. This could easily be achieved by vireing a proportion of unallocated Priority 4 resources to Priority 5.

lxxii. The challenge with this recommendation will be securing the match funding to support any additional investments in central EPMT capacity above and beyond the core requirements. However, the evaluation recommends that the need for such contingency be recognised by the Programme and CLG centrally.

Recommendation 33: Consider allocating Priority 5 resources to strengthen external capacity to support the Programme

lxxiii. While core management of the Programme should remain the key objective for Priority 5, the evaluation has pointed to a perceived need to strengthen the capacity of external organisations to support the Programme. This ranges from the specific delivery of the package approach in Priority 3 to the broader availability of advice and guidance on how to access ERDF for potential applicants. The headroom available in Priority 5 will only be clear once the review of resource requirements is fully completed and decisions are taken on vireing resources or surplus match. However, the Programme should now be determining how best to invest in external ERDF capacity, including any application process it might put in place, for the period through to December 2015 when the Programme is formally closed. The implication is that a range of organisations will be able to bid for ERDF resources to invest in providing capacity to support the Programme.

Recommendation 34: Maintain Programme resources for research and evaluation

lxxiv. The evaluation has made a number of recommendations about research and evaluation, including the need to review the key baseline indicators, the need to strengthen the analysis of outputs and results performance and the priority that should be given to developing an impact framework. In addition, the Programme needs to ensure that project evaluations remain an integral part of its performance management process. The Programme should look to retain sufficient resources through Priority 5 funding to ensure that it maintains a robust approach to evaluation through its remaining period.

Recommendation 35: Earmark Technical Assistance resources for possible investment in improving systems and process software

lxxv. There is a need to at least explore the potential for Technical Assistance funding to support the Programme in building databases and improving software platforms to ensure that the transition from AWM to CLG does not significantly disrupt systems and process that have worked effectively to date. Within any change of this scale, there are inevitably some teething problems, and the Programme and CLG will want to minimise any risks of delays in project monitoring, claims processing etc. arising as a result of difficulties with data systems.

Implementation and Management of the Programme

Overview

lxxvi. The evaluation has concluded that the implementation and management of the Programme has been both effective and efficient, with evident commitment to making improvements and learning lessons as it progressed. To date, the Programme has achieved the lowest rate of irregularities of all the English regions, the result of its methodical approach to management and a good marker of the strengths of its systems and processes. This position has been achieved despite considerable policy and institutional change over the past 2 years, with the winding up of regional organisations including AWM and significant pressure on crucial public sector funding sources for the Programme.

lxxvii. The evaluation has drawn the following key conclusions about the implementation and management of the Programme:

- A strong ERDF partnership has been a feature of the Programme and has underpinned effective governance arrangements. The key committees including the Programme Monitoring Committee (PMC) and the Priority Working Groups (PWGs) are noted for having been generally constructive and business like, and for having secured continued representation from senior members of key partner organisations.
- A good working relationship between the ERDF Programme and Advantage West Midlands. There were some teething problems and adjustments required during 2008 and 2009, but the general message from the evaluation is that ERDF worked effectively both with Single Programme funding as a key source of match for the Programme and with the wider resources of AWM to support the management and administration of the Programme. This was also assisted by continuity in the transition from the 2000-06 to the current Programme, in which valuable ERDF expertise within the region from the former Programme was available to the current Programme as personnel transferred into the Agency.

- Effective systems and processes which have been developed and improved as the Programme is implemented. Where difficulties have occurred (eg. with the clarity of guidance on particular technical issues), the Programme has sought to respond and there is clear evidence of lessons having been learned and applied. Inevitably, there are frustrations amongst some applicants with ERDF. It remains a complex and technical funding regime, and accessing ERDF investment can be seen as a challenging task for applicants. However, the evaluation has found little evidence to suggest any significant problems with the way that the Programme has handled projects. If anything, there is a desire for more of the sound technical advice that the Programme has been able to provide.
- There are critical challenges ahead for management and implementation, but the partnership has taken early action to prepare itself. A clear indication of this preparedness is the agreement in May 2011 on the reconfiguration of the region's governance structures, with PMC members having largely settled on the arrangements for a new Local Management Committee (LMC) and a new LMC sub-committee to enhance partnership inputs into Programme decision making. While challenges remain with the shift from Regional Development Agencies to of responsibilities for the running of ERDF Programmes and the significant changes taking place as the institutional balance shifts from regional to local, the evaluation has concluded that the West Midlands has sufficient maturity in its partnership to adjust to these changes without substantially adverse effects on the Programme.

Recommendations

The key recommendations on implementation and management are as follows:

Recommendation 36: LMC and sub-group need to play a strategic role on the investment frameworks throughout the remaining period of the Programme

lxxviii. In the absence of AWM and with the emerging localism agenda, the wider partnership should gear up for a bigger role in strategic decisions about investments both in terms of the overall investment frameworks and the approvals process. The new arrangements already put in place provide a good platform, but it will be important to monitor and review the work of the LMC and the sub-group to ensure that it provides the necessary strategic direction.

Recommendation 37: Coordination of ERDF activities across the West Midlands to be encouraged by the LMC and sub-group

lxxix. This remains a West Midlands Programme but in absence of AWM and other regional bodies, there will be new onus on LEPs, Local Authorities and partners to coordinate their approaches to ERDF. This will involve seeking common ground amongst investment priorities and efforts to secure projects with a scale and reach which extends across the West Midlands, while recognising the importance of local priorities. Both the LMC and the sub-group will have a critical part to play here and they should look to agree a set of principles for coordination at an early stage.

Recommendation 38: Strengthen performance management processes

lxxx. There is recognition by the Programme of a need to tighten its approach to performance management both operationally and strategically. This means improving both the collection and management reporting of outputs and results data, and an enhanced role for the partnership in strategic action to address performance issues, potentially through the work of the LMC sub-group with the European Programme Management Team.

Recommendation 39: Retain and, where necessary, bolster capacity to manage and administer the Programme

lxxxi. This will be critical to maintaining its strong track record on irregularities, as well as ensuring that it has the resources necessary to handle a growing project load through the development and contracting process.

Recommendation 40: Maintain sufficient resources for research and evaluation through the duration of the Programme

lxxxii. The evaluation has made a number of recommendations about research and evaluation, including the need to review the key baseline indicators, the need to strengthen the analysis of outputs and results performance and the priority that should be given to developing an impact framework. This is a challenging set of tasks given the loss of Single Programme resources which played a critical part in research and evaluation. However, the Programme should look to earmark sufficient resources through Priority 5 funding to ensure that it maintains a robust approach to evaluation through its remaining period.

1. Introduction and Overview

1.1 This is the draft final report for the mid-term performance evaluation of the West Midlands ERDF Programme, 2007-13. The Evaluation Steering Group (ESG) set 5 objectives for the evaluation:

- Determine whether the strategy and focus of the Programme, as set out in the OP document, is (a) still relevant to the socio-economic circumstances of the region and (b) is consistent with other strategies for the region, particularly in the light of the changing policy and operational circumstances
- Assess the progress which the Programme has made towards achieving its stated objectives
- Review Programme outputs and results, providing a headline assessment of progress and a commentary on the appropriateness of Programme indicators.
- Review Programme implementation and management arrangements, including systems and processes.
- Provide recommendations for the remaining period of the Programme.

Structure of the Report

1.2 The draft final report is structured as follows:

- Section 2: Review of the Programme Strategy. This includes a review of the Programme's socio-economic baseline, an assessment of changes in the policy context and assessment of the overall Programme strategy.
- Section 3: Review of Programme performance, including expenditure, outputs and results performance and assessment of Lisbon compliance.
- Section 4: Review of Priority 1
- Section 5: Review of Priority 2
- Section 6: Review of Priority 3
- Section 7: Review of Priority 4
- Section 8: Review of Priority 5
- Section 9: Assessment of implementation of cross-cutting themes
- Section 10: Review of Programme implementation and management

1.3 Each of the review sections of the report includes a comprehensive overview of progress by the Programme in terms of expenditure, outputs and results. It provides a summary of the key factors that have driven this progress, together with a summary assessment of the extent of fit between ERDF investments and the Programme strategy as well as any current or potential future investment gaps. Conclusions and recommendations for the Programme are provided in each section, with an emphasis on future focus given the importance of meeting expenditure targets and dealing with the considerable policy and funding changes that are currently taking place nationally, regionally and locally.

1.4 This is the first full draft report for consideration by the Evaluation Steering Group. We would welcome comments on the draft and will respond to these with revisions, with the final report scheduled for completion by the end of August 2011.

2. Programme Strategy Review

Summary of Programme Strategy

Strategic Framework

2.1 The strategy set by the West Midlands Operational Programme emphasises enterprise, innovation and business competitiveness. The vision identified in the WMOP is:

For the West Midlands ERDF Programme to achieve a significant increase in the productivity of the business base in the West Midlands; to reduce unemployment and inequalities; and ensure that the region's economic growth is achieved in a sustainable manner.

2.2 The investment strategy was constructed around five priority axes (Priorities) to which Programme resources were allocated. Table 2-1 below summarises the Priorities, their key headline allocation of ERDF Programme resources to them.

Table 2-1: West Midlands ERDF Operational Programme Priorities, Objectives and Allocations

Priority	Objectives	Allocation*
Priority 1: Promoting Innovation, R&D	• Increase investment in research and development • Increase levels of knowledge transfer between universities and businesses • Improve opportunities for skilled people to become involved in innovation • Raise levels of commercialisation of ideas through demonstrator initiatives	£124.7 million 36% overall Programme
Priority 2: Stimulating Enterprise Development	• Increase enterprise activity in the West Midlands to improve economic performance • Generate more productive and innovative enterprises • Stimulate new enterprise development	£119.9 million 34% overall Programme
Priority 3: Achieving Sustainable Urban Development	• Generate new employment opportunities in the most disadvantaged communities of the West Midlands • Create the conditions to encourage new investment and job creation in those communities • Encourage higher rates of economic activity in disadvantaged communities (skills, access to employment centres, support for enterprise) • Encourage development and take up of environmental technology in disadvantage communities	£90.9 million 25% overall Programme
Priority 4: Inter-Regional Activity	• Encourage lesson learning and best practice through international collaboration • Enable region to better access international funding sources	£5.3 million 2% overall Programme
Priority 5: Technical Assistance	• Provide for effective management and administration of ERDF Programme • Engage regional partners • Enable communication with partners	£10.6 million 3% overall Programme

*Allocations based on €1=£0.89 converting original allocation in € to Sterling value in early 2011

2.3 Alongside the core strategy and priority axes, the WMOP adopted two cross-cutting themes: environmental sustainability and equal opportunities. They were to give rise to actions across the Programme and sought to achieve the following objectives:

- Environmental Sustainability: More sustainable patterns of production and consumption across the WM; increased resource efficiency; more sustainable communities

- Equal Opportunities: Action to tackle underrepresented groups in the business base and labour market; better distribution of the benefits of economic growth; increased earnings potential for women, black and minority ethnic communities and other disadvantaged groups

Programme Targets

2.4 Specific outputs and results targets were set for each of the Programme's Priorities. The key overall outputs and results targets identified in the WMOP were:

- 22,440 businesses assisted to improve their performance
- 10,520 gross jobs created
- 1,120 gross jobs safeguarded
- 2,490 new businesses created
- 3,290 businesses engaged in new collaborations with the knowledge base.

2.5 The WMOP did not set impact targets, but identified increased GVA, increased employment and a reduction in carbon emissions per £ of GVA as key impact indicators.

Programme Context

2.6 The design of the West Midlands Programme was shaped by both by the socio-economic context in which it was developed and a number of key policy drivers. These drivers are summarised in Table 2-2 below.

Table 2-2: West Midlands ERDF Operational Programme	
Priority	Key Socio-Economic and Policy Drivers
Priority 1: Promoting Innovation, R&D	• West Midlands Economic Strategy, Birmingham Science City, WM Innovation & Technology Council strategy, WM clusters, high tech corridors • Underperformance of WM on commercial R&D, graduate retention, innovation in SMEs • Strengths to build on included good pilot schemes linking HEIs to business, strong research base and strengths in growing, technology intensive sectors (especially manufacturing)
Priority 2: Stimulating Enterprise Development	• WMES, Enterprise Board, Business Support Simplification and West Midlands Business Model, Regional Finance Forum • Strengths in flexible labour market, diversity of business base and high performing clusters • Weaknesses including low levels of enterprise in specific areas, difficulties in securing access to finance, low levels of innovative active SMEs, low levels of productivity
Priority 3: Achieving Sustainable Urban Development	• WMEs, Regional Spatial Strategy, Regeneration Zones, emerging City Region • High volumes of brownfield land and lack of affordable, good quality development land • High levels of unemployment, low skills and low enterprise levels in specific areas of WM • Challenges in accessing employment (transport provision, congestion, costs)
Priority 4: Inter-Regional Activity	• WM's track record of international engagement in EU • WMES and 'powerful voice in Europe' initiative • Good international links and accessibility to Europe • Lessons to learn from elsewhere on how to tackle weaknesses including low graduate retention, low innovation rates etc.
Priority 5: Technical Assistance	• Need to provide capacity to support ERDF investment across West Midlands

Changing Socio-Economic Context

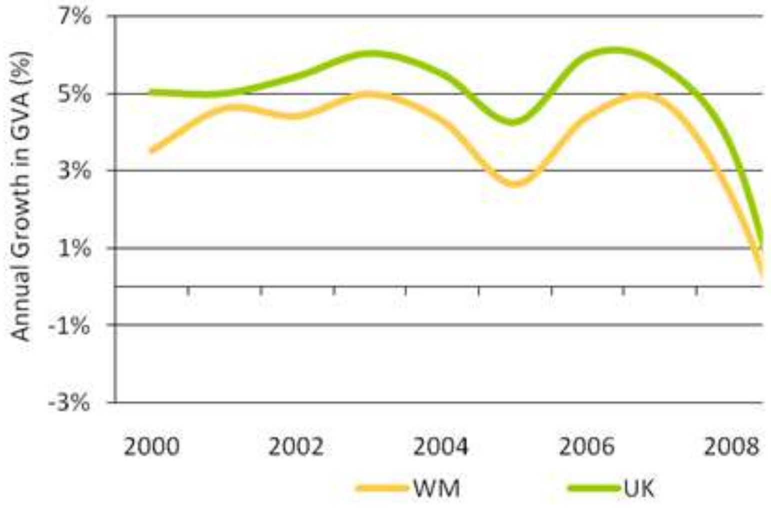
Economic Overview

2.7 The West Midlands is home to the second largest urban area in the UK after Greater London; covering Birmingham, Wolverhampton, Dudley, Solihull and Walsall. However, it also comprises large sparsely populated rural areas, across Shropshire and Herefordshire. The economic prospects of the West Midlands are similarly diverse; districts like Birmingham, Wolverhampton and Sandwell suffer high levels of unemployment and deprivation while parts of Worcestershire and Warwickshire register as some of the most affluent/least deprived in the country.

2.8 The region, along with the rest of the country, entered an economic downturn in 2008 that led to recession. While the economy has moved out of recession we remain in what now appears to be a protracted period of recovery and the effects of the downturn continue to affect many areas of the economy.

Economic growth in the region prior to the recession was consistently around a percentage point lower than across the UK prior to the recession. However, the widespread deterioration in economic circumstance has seen a convergence in growth rates in the latest available data (2009 - See Figure 2-1 below). However, overall growth while positive at over 11%, is 5.5% behind the national figure since the baseline. Moreover, this gap could reasonably be expected to return as growth is re-established if structural change in the economy is not brought about.

Figure 2-1: Year on Year Growth in GVA, West Midlands and the UK, 2000 to 2009



Source: ONS Regional GVA, 2011

2.9 The Index of Vulnerability produced by Experian[1] ranks the 324 local authorities across England in terms of their resilience to economic shocks. West Midlands local authorities rank disproportionately within the upper ranges of the index going someway to explaining its relatively poor performance over the course of the past few years. A fifth (20%) of the region's 30 districts are in the 10% most vulnerable nationally and two thirds into the 50% most vulnerable. Stoke and Sandwell fair the worst, positioned as the third and fourth most vulnerable districts respectively, with Walsall also placed in the top 5%. Just two authority districts fall in the 20% least vulnerable: Warwick and Stratford-upon-Avon.

2.10 Furthermore, observation of the range of key indicators displayed in Table 2-3 suggests the region may have suffered disproportionately through the recession. While positive change has continued to be generated in regional productivity rates (GVA per head), the balance of skills (number of people with low and higher level skills) and export performance where long-term upward trends have persisted, in each case the gap with the UK has widened. Similarly where employment indicators (the employment and claimant count rate and economic activity levels) have inevitably suffered through the downturn, recession and tentative recovery, this decline has been in excess of that seen nationally.

2.11 The table gives an overview of performance in the region on the key indicators explored in the Operational Programme Document 2007-13. This gives current performance and change

[1] The index is based on four areas of socioeconomic performance and a range of indicators; Business (including the presence of vulnerable, resilient and high growth sectors, business start-up and self-employment rates, export levels, insolvency rates and employment density), Community (including life expectancy, vulnerability of individuals to long-term unemployment and loss of income, and multiple deprivation), People (including skills and qualifications levels and earnings) and Place (including house prices, crime and availability of employment space).

from the baseline of 2004-5, where published data permits. Change is recorded either as a percentage (%) over the baseline figure or where indicators are measured as a percentage, as an absolute percentage point (pp) change. These are accompanied by arrows indicating the direction of travel for the West Midlands economy over the period (ie for positive or negative movements), versus the baseline and net of the change seen nationally.

Table 2-3: Key Regional Indicators - Economic Summary for the West Midlands

Indicator	Dates (Baseline - Update)	Baseline	Update	Change Over Time (% / pp)	Change Compared to the UK (% / pp)	Comparative Position	Implications for the Programme
Working Age Population	2004 – 2009	3,247,100	3,292,300	+1.4% ⇧	-1.7% ⇩	Accounts for 8.9% of the UK population and is the fourth most populous region after London, the North West and East of England	The West Midlands has seen positive year on year population growth from 2001, with Birmingham, Warwick and Telford registering the highest. The Programme will need to continue to balance the diverse needs of a region covering major urban and expansive rural areas.
GVA (£ millions)	2004 – 2009	81,621	91,178	11.7% ⇧	-5.5% ⇩	Accounts for 7.3% of UK GVA and is the sixth largest economy among the nine UK regions	The share of national GVA accounted for by the region has shrunk. The Programme will therefore need to assist businesses in high growth sectors and support innovation and competitiveness in those that have struggled to generate strong returns.
GVA per head	2004 – 2009	£15,325	£16,788	+9.5% ⇧	-7.1% ⇩	82.5% of national figure. Fourth lowest regional productivity	The West Midlands has the lowest GVA per head outside of the northern regions. The Programme should look for opportunities to support businesses to develop new and innovative product and business processes.
GVA per hour worked (as % of UK average)	2004 – 2009	90.0%	87.8%	-2.4% ⇩	-2.2% ⇩	Lowest productivity among the English Regions by this measure	
Median gross weekly wage (£)	2005 – 2010	£403	£469	+16.4% ⇧	+0.7% ⇧	94.1% of the UK average. Fourth lowest wages in England behind the North East, Yorkshire & Humber and the South West.	The region has an underrepresentation of business and public service professionals and corporate managers in particular. Developing these high value sectors and investment in skills and training will be key to boosting the earning potential of existing residents and increasing its ability to attract and retain a workforce with higher earning potential.
Employment Rate	2005 – Year to Sep 2010	72.7%	67.8%	-4.9 pp ⇩	-0.8 pp ⇩	Fallen from the sixth to eighth among the nine English regions	Deterioration of the three key employment indicators covered has exceeded that seen nationally over a period which saw a major downturn and recession. While job creation
Claimant Count Rate	2005 – average to Apr 2011	2.9%	4.7%	+1.7 pp ⇩	+0.7 pp ⇩	Risen from the third to second highest rate nationally	

% of Working Age population economically inactive	2004 – Year to Sep 2010	22.1%	25.3%	+3.2% ↓	+1.2% ↓	Has moved from the fourth to third worst regionally	performance is therefore made more difficult, the importance of performing well against these targets has increased in this context. The Programme must look to support newly unemployed individuals back into work wherever possible.
IB/SDA Claimants (as % of Working Age Population)	2004 – 2010 quarter average	7.5%	5.8%	-1.7% ↑	-0.1% ↑	Has moved from the third to fourth highest regionally. Rates are highest in Stoke (9.9%), Sandwell (7.5%) and Wolverhampton (7.3%) .	There has been a reduction in the number of IB/SDA claimants broadly in line with the national trend. This implies that there may have been some alleviation of the problems faced by those in longer-term need. Outside the northern regions, the West Midlands has the highest rate of claimants.
% with NVQ Qualifications Level 1 and Below*	Q4 2005 – 2009	44.1%	42.8%	-1.3 pp ↑	+1.6 pp ↓	Has moved from the third to the worst performing region on this indicator. Areas facing especially large proportions of lower skilled individuals are Stoke (49.0%), Wolverhampton (48.8%) and Walsall (48.1%)	While the region's balance of skills has seen some shift towards higher qualifications levels, the period has seen the gap with the national average widen. This points to a strong need to stimulate activity around up-skilling, education and training for those with no or lower level qualifications. If the Programme is able to promote growth in knowledge based firms and those with emerging high growth potential it is likely to improve the competitiveness of the WM in attracting higher skills levels and encourage raised levels of educational attainment.
% with NVQ Level Qualification Level 4+	Q4 2005 – 2009	23.6%	24.7%	+1.1 pp ↑	-2.0 pp ↓	Now the second worst performing region on this indicator behind the North East. Sandwell (15.4%), Stoke (17.5%) and Walsall (17.6%) face distinct shortages.	
Value of Regional Exports (in current prices) (£m)	2003 - 2010	£16.57	£17,34	+4.6% ↑	-6.0% ↓	Represents 19.1% of regional GVA, putting the West Midlands behind the North East, the East, the South East, the North West and the East midlands.	Growth in exports has been below GVA growth and below that seen across the UK. The Programme should look to work with firms (in sectors including manufacturing, tourism and business services in particular) to identify and exploit overseas markets.
*Includes trade and other qualifications							

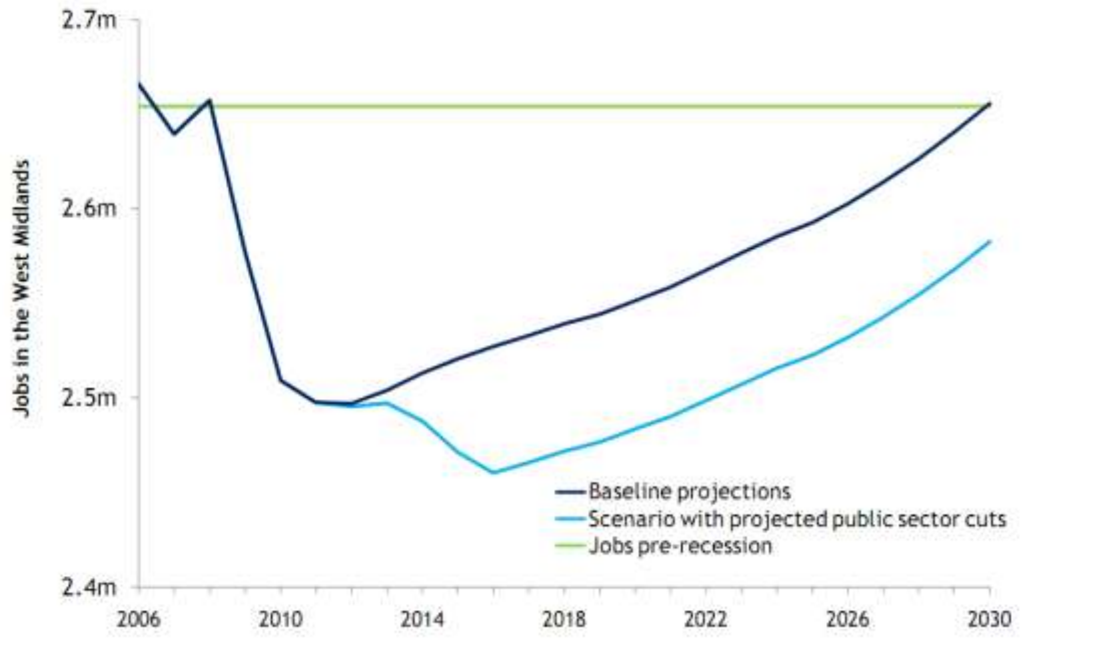
The Impact of Government Spending Cuts on the West Midlands

2.12 Public sector spending cuts announced by the government in the 2010 Comprehensive Spending Review and 2011 Budget have started to take affect across the country. The West Midlands Regional Observatory (WMRO) forecast that between 2010 and 2016 public sector employment across the region will fall by more than 80,000 with job cuts of nearly 35,000 in education, nearly 30,000 in health & social care and nearly 18,000 in other public sector organisations such as the police and fire services, local authorities and regional offices of national government and other public bodies[2].

2.13 The overall share of public sector employment in the West Midlands rose from 22% to 27% from 1998 to 2008 making the economy increasingly susceptible to on-going job losses in the sector. Overall cuts will represent around a 13% reduction in public sector employment with around 3.4% of the total employment base affected. Stafford where roughly 40% of employment is accounted for by the public sector, Shrewsbury (38%) and Birmingham, Worcester, Stoke and Wolverhampton (all between 32-33%) are all likely to suffer disproportionately.

2.14 Furthermore the capacity to counter the shrinking of public sector employment with growth in the private sector is uncertain, the region being the only one in England to see a decline in private sector employment between 1998 and 2008[3]. WMRO forecasts suggest levels of employment are unlikely to return to pre-recession levels for two decades (see Figure 2-2 below).

Figure 2-2: Regional Employment Forecasts, Baseline scenario and under Public Sector Cuts



Source: WMRO Policy Assessment Model

[2] West Midlands Regional Observatory (2010). 'West Midlands Skills Assessment. Briefing Paper One: The Local Impact of Public Sector Job Cuts'.

[3] *ibid*.

Priority 1 Indicators – Innovation and R&D

2.15 While the West Midlands continues to lag behind a number of other regions in terms of innovation and diversification into new products, services and markets, there has been some significant progress since the start of the Programme. There has been some positive change in the structure of the economy towards higher value and innovation/R&D focussed sectors, an increase in the level of resource being invested by businesses in innovation, and R&D and the number of firms described as innovation active[4]. Indeed, while the number of patent applications has fallen post-recession, the region has outperformed the national average on all Priority 1 indicators over the period. This is promising when considering what has been a difficult operating environment.

2.16 The development over the last decade of localised clusters covering both high tech manufacturing and knowledge industries (eg. in digital media and ICT and in aerospace and automotive manufacturing) is worthy of particular mention and has help to drive the region's progress. Further wholesale re-orientation of the economy towards a higher value economic base will be required if significant sustainable long term growth is to be established and there is potential to move in the right direction by building on this progress.

[4] An 'innovation active' firm is one that has introduced a new or significantly improved good, service or process; was engaged in innovation projects not yet compete or abandoned; is engaged in longer-term activity such as basic R&D; has spent on areas such as internal R&D, training, acquisition of external knowledge or machinery/equipment linked to innovation; or that formally co-operates on innovation activities with other organisations.

Table 2-4: Priority 1 Indicators

Indicator	Dates (Baseline - Update)	Baseline	Update	Change Over Time	Net of UK Change	Comparative Position	Implications for Priority 1
High Tech Manufacturing Employment (as % of all manufacturing)	2004 - 2008	14.1%	15.5%	+1.4 pp ↑	+0.4 pp ↑	The West Midlands has the third lowest high tech presence in its manufacturing sector after London and Yorkshire & Humber and stands 5.5 pp behind the Great Britain average. Coventry (29%) and Staffordshire (23%) have the largest presence proportionately while Dudley (8%), Stoke (6.9%) and Sandwell (4%) have the lowest.	The Programme must look to develop a presence in existing and emerging sectors, especially in areas where more traditional manufacturing has dominated. Opportunities could be sought across the five growth sectors identified in the WMOP: health and medical technologies, energy, advanced materials and nanotechnology, digital media and ICT and transport technologies.
Knowledge Based Industry Employment as a % of Total	2004 - 2008	37.7%	39.8%	+2.1% ↑	+0.4% ↑	Second lowest in England behind the East Midlands. There is considerable variation however; a range from 27% in Sandwell to 49% in Birmingham.	Key in developing a strong knowledge based economy will be the Programme's work drawing, retaining and maximising the value of skilled people.
Innovation Active Firms as % of Total	2005 - 2009	55.5%	58.7%	+3.2 pp ↑	+2.3 pp ↑	Now stands fifth among the regions and on a par with the English average	Strong progress has been made in this area; progress that is more impressive considering constraints on business resources over the period. The Programme should build on and extend the reach of existing activity supporting businesses to innovate if progress made is to be capitalised upon and the regions business innovation performance to be improved.
Business Expenditure on R&D as % of GVA	2005 - 2009	0.86%	0.96%	+11.3 % ↑	+10.1% ↑	Ranks sixth from nine among the regions and is behind UK average	
% of Businesses Investing in External Knowledge Creation	2007 - 2009	13.20%	13.00%	-0.2 pp ↓	+2.1 pp ↑	Ranks fourth from nine among the regions behind South East and West and East Midlands. Stands 1.2 pp ahead of the UK position.	
Patent Applications per 10,000 Residents	2004 - 2010	3.95	3.21	-18.6% ↓	1.5% ↑	There is a significant gap between the Southern regions (London, South East and West and Eastern England) where application rates are between 40% and 175% higher than other regions. The region ranks 2nd in this other group behind Yorkshire and Humber.	The Programme should ensure that activity including knowledge transfer/ demonstrators is designed to generate opportunities for the commercialisation of new goods and services.

Priority 2 Indicators – Stimulating Enterprise Development

2.17 An increase in the business stock of over 6% since the baseline is promising. However, the latest data (running to 2008) fails to register the full effects of the deterioration of economic conditions. Moreover, it is clear from viewing the key business indicators included in Table 2-5 below that the business base has been growing more slowly than has been the case across the UK.

2.18 Access to finance continues to be an issue of concern to many SMEs post-recession. Figure 2-3 below shows that while there has been some recovery in net lending to businesses, positive growth has failed to return and is unlikely to return to pre-recession levels soon such is the increased aversion within banks towards lending to smaller/early stage enterprises.

Figure 2-3: Net Growth in Lending to UK Businesses

Source: Bank of England Lending Trends, April 2011

2.19 Areas of multiple deprivation within the West Midlands face particular barriers to business formation, most significantly access to finance; with an average density of just 32-38 start up SMEs per 1000 adults while areas such as Stratford (62) and Warwick (59) are above the UK average[5].

2.20 A decline in the number of business births and increased business failure may dampen demand for business support provision in the short-term but projects delivering support will need to be flexible as the need for delivering assistance to struggling enterprises will be of crucial importance as the region looks to establish stronger growth. Furthermore, as employment has increased and job losses continue to rise across the public sector, the programme will need to position itself to help those wishing to start businesses as an alternative. In the medium and longer term, Priority 1 projects must also be able to provide comprehensive support to firms able to generate high growth. The Programme's ability to manage these competing priorities will be challenged by a changing landscape of business support delivery nationwide, an issue considered in the policy context section.

[5] *ibid*

Table 2-5: Priority 2 Indicators

Indicator	Dates (Baseline - Update)	Baseline	Update	Change Over Time	Net of UK Change	Comparative Position	Implications for Priority 2
Stock of Active Enterprises	2003 - 2008	180,380	191,490	+6.2% ⇧	-1.6% ⇩	The third lowest growth among the regions; above the South West (5.2%) and South East (5.4%). Wolverhampton was the only county to experience negative change (-6.8%) and Walsall (0.2%) and Stoke (1.1%) both experienced slow growth. Meanwhile, Solihull and Coventry have all seen active enterprises increase by over 14%.	Overall, performance on the key business indicators since the baseline has seen the regional position Vs the national picture decline. Work to develop a culture of entrepreneurialism and the potential for business ideas to be converted into start-ups as well as work with existing businesses to maximise resource efficiency will be crucial in ensuring that the West Midlands is able to build a stronger growth path moving out of the recent downturn.
Business Births (as % of active enterprises)	2004 - 2008	12.8%	10.7%	-2.0 pp ⇩	-0.5 pp ⇩	Had the third worst birth rate after the East Midlands and South West and stood 0.7 pp behind the UK. The metropolitan counties of Birmingham, Sandwell, Coventry and Wolverhampton all registered rates above the UK average however. Hereford and Shropshire registered proportionately fewest new businesses.	
Business Deaths (as % of active enterprises)	2004 - 2008	11.1%	9.4%	-1.7 pp ⇧	+0.1 pp ⇩	Ranked level with the UK average in 2008. Rates range from c.8% (Shropshire and Herefordshire) to c.10%-11% spanning across the Metropolitan area.	
Net Annual Increase in Active Enterprises	2005 - 2008	1.4%	0.7%	-0.8 pp ⇩	-1.6 pp ⇩	The West Midlands had the lowest increase in active enterprises of anywhere in England in 2008 and 3.3 pp lower than in London. Dudley, Telford and Wrekin, Stoke, Sandwell, Wolverhampton and Walsall all saw a decline while numbers in Coventry and Herefordshire rose by 2.5%.	
% in employment who are self employed - aged 16-64	2005 - Year to Sep 2010	11.1%	12.1%	+1.0% ⇧	+0.5% ⇧	Has the highest self-employment rate outside the Southern Regions and remains 0.8 pp behind the UK average. Self-employment rates are highest in the more rural counties of Herefordshire (19%), Shropshire (17%) and	The Programme could progress positive change further by looking to encourage and support self-employment as an option within some of the urban areas seeing

						Staffordshire (15%) and lowest in Telford & Wrekin and Coventry (both 8%).	low rates to date. It should also continue to focus efforts on maximising the latent entrepreneurial potential of women and BME groups.
GEM Total Early-stage Entrepreneurial Activity[6]	2005 - 2009	5.4%	5.2%	-0.2%	0.0%	Has fallen from sixth to seventh among the regions, ahead of the North East and West (both 4.9%). Currently 0.6 pp behind the UK average.	
% of employees taking work-based training in last 13 weeks	2005 - Year to Sep 2010	28.0%	23.6%	-4.4%	-1.5%	The West Midlands now has the lowest proportion of recent trainees among its employee workforce. The largest decline over the period has been in Wolverhampton, falling from 27% to 13%.	Has predictably fallen as business struggle to work training budgets into tightening costs, but has fallen more significantly than elsewhere. The Programmes business support activities should therefore look where possible to support businesses to take the necessary steps in plan for the longer-term sustainable of the organisation and its workforce.
TEA is based upon individuals' involvement in enterprise activities during the previous 42 months (as a manager or owner of a business).							

[66] Percentage of 18-64 population who are either a nascent entrepreneur (i.e., actively involved in setting up a business they will own or co-own) or owner-manager of a new business

Priority 3 Indicators – Achieving Sustainable Urban Development

2.21 Table 2-6 below shows performance against three key indicators across the region's 14 counties. This gives some idea of the high degree of disparity that exists within the West Midlands economy as well as a broad indication of those areas most in need of assistance under Priority 3. The table has been split broadly into predominantly urban and rural districts; it is this first group which forms the core focus for Priority 3 interventions[7].

2.22 The current position of the two groups on each of the indicators presented provides a stark illustration of the increased need typically faced by urban areas. The average employment rate (62.7%), claimant rate (6.1%) and business density are all significantly behind those of their rural counterparts. Counter to what might be expected business density in urban areas is also typically lower, pointing to an untapped potential for businesses growth in city areas.

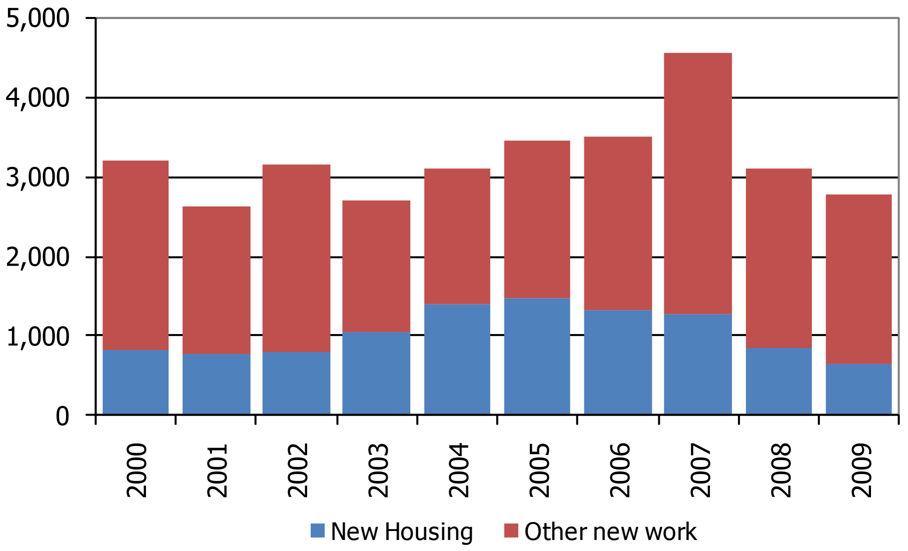
Table 2-6: Key Economic Indicators by County

	Employment Rate		Claimant count rate		Business Density (units per 1,000 WAP)	
	Latest Data (Year to September 2010)	Change From Baseline (pp)	Latest Data (April 2011)	Change From Baseline (pp)	Latest Data (2008)	Change From Baseline (%)
Urban Districts						
Birmingham	60.6%	-2.8	7.1%	+1.9	52.6	+0.4%
Dudley	69.0%	-6.0	5.0%	+1.9	59.6	+5.8%
Sandwell	58.2%	-6.4	7.2%	+2.6	50.6	+1.3%
Solihull	66.2%	-8.8	3.6%	+1.8	68.0	+15.0%
Walsall	63.0%	-4.3	6.6%	+2.8	53.2	+0.7%
Wolverhampton	59.5%	-8.7	7.8%	+3.0	56.4	+11.1%
Coventry	66.3%	-3.7	5.1%	+1.9	48.3	+7.4%
Stoke-on-Trent	64.2%	-3.1	5.2%	+2.2	49.3	-0.4%
Rural Counties						
Staffordshire	72.6%	-2.4	2.8%	+1.3	64.8	+13.2%
Herefordshire	74.6%	-0.9	2.5%	+0.9	86.0	+15.9%
Shropshire	75.6%	-2.0	2.6%	+1.4	82.2	+16.9%
Telford & Wrekin	68.8%	-7.3	4.1%	+2.1	55.6	+13.7%
Warwickshire	73.9%	-2.7	2.7%	+1.3	80.8	+11.5%
Worcestershire	75.6%	-1.2	3.2%	+1.4	76.4	+12.2%

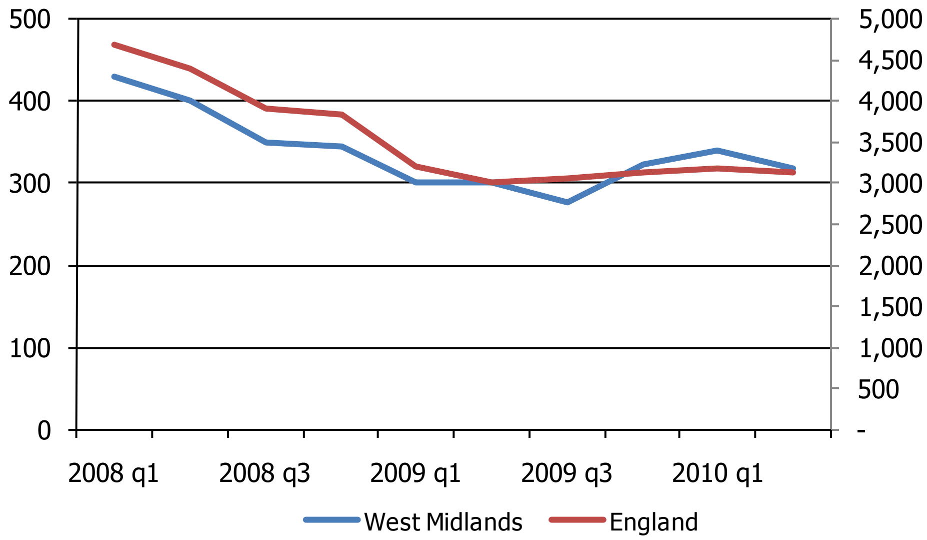
2.23 Figure 2-4 shows the fall off during 2008 and 2009 in planning applications and construction orders as the property market began to suffer as a result of the credit crisis that fuelled the recession. All construction orders fell 32% in 2008, the bulk of this reduction (69%) occurring across non-residential work. Similarly, major planning applications dropped by 35% from the start of 2008 to a low in the third quarter of 2009 and remain 25% below that figure in the latest data.

[7] Priority 3 was designed to focus on the West Midlands and North Staffordshire Conurbations. The latter incorporates Newcastle under Lyme and Stoke on Trent. Nuneaton was included with Coventry as part of a contiguous area, although the town is outside metropolitan boundaries.

Figure 2-4: New Construction Orders, 2000 to 2009, West Midlands



Major Planning Applications* 2008 q1 to 2010 q2



Source: ONS Construction Annual 2010; DCLG Planning Statistics
Major residential planning applications are those incorporating 10 or more dwellings or across 0.5 hectares while other applications are those exceeding 1,000m² of floor space or across 1.0 hectares

2.24 Deprivation has proved persistent in some areas. In the 2004 and 2007 IMD five (16.7%) of the 30 West Midlands local authority districts fell into the top 50 (15%) most deprived nationally. This has now been added to with Coventry slipping into the top end of this bracket. The others are Birmingham (9th most deprived), Sandwell (12th, up from 17th in 2007), Stoke-on-Trent (16th, down from 14th), Wolverhampton (21st, up from 33rd) and Walsall (30th, up from 45th).

Table 2-7: Priority 3 Indicators

Indicator	Dates (Baseline - Update)	Baseline	Update	Change Over Time	Net of UK Change	Comparative Position	Implications for Priority 3
Derelict Land (Ha)	Apr-08 -	2,929	2,408	-17.8%	N/A		
All New Construction Orders	2004 - 2009	3,095	2,773	-10.4%	+3.1%		
% of areas in the 10% most deprived nationally	2007 - 2010	15.0%	16.0%	+1.0 pp	+1.0 pp	The largest proportion outside of England's northern regions	The IMD is based on a wide range of indicators. Of particular relevance for P3 is the need to tackle barriers to housing and other services and the living environment in the most deprived of the region's urban areas.
% of areas in the 10% most deprived nationally – Barriers to Housing and Services	2007 - 2010	8.6%	7.4%	-1.2 pp	-1.2 pp	Fifth highest among the regions, behind London, the South East, South West and East	
% of areas in the 10% most deprived nationally – Living Environment	2007 - 2010	15.2%	15.4%	+0.1 pp	+0.1 pp	Third highest among the regions, behind London and Yorkshire & Humber	

Overall Implications for Programme

2.25 The socio-economic context is much changed since the Operational Programme was developed during 2006-07. The recession and its after effects will continue to affect the achievability of programme objectives and targets during 2010 and 2011 (as it did in 2008 and 2009), which is likely to have implications for the achievement of overall programme targets for the whole programme period.

2.26 The analysis above points to three areas on which the recession has had an especially noticeable effect:

2.27 **The labour market:** Employment indicators are failing to recover at any great pace towards pre-recession levels. On top of this, the scale of public spending cuts and the dependence of the West Midlands economy on the public sector (for employment and demand for goods and services), suggests there is the prospect that this trend will persist. The extent to which certain localities across the region are particularly vulnerable to a reduction in the public sector and capable of balancing this reduction with growth in the private sector will be crucial for the region in the coming years.

2.28 This suggests that job creation needs to be an increasingly important priority during the remaining years of the programme.

2.29 **Business performance:** A more challenging business environment, constrained cash flow and continued difficulties in accessing finance are likely to make many businesses more cautious in investing in or expanding their operations. Ultimately this may make it harder to engage firms in programmes and projects, especially where the payback may take some time to emerge. An on-going issue for SMEs is access to finance as banks also continue to be more risk averse (making the conditions under which loans are offered tougher and reducing lending overall). Credit conditions have improved to some extent, although the volume of lending is still much lower than before the recession. As the economy emerges from recession, there may be an increase in demand for business support to help with restructuring and future growth.

2.30 The upshot is that whilst demand for business support delivered with ERDF support may have been dampened during the recession (although it may have increased for some forms of support), it is likely to increase as the economy recovers.

2.31 **Property market:** The property was one of the first sectors to suffer during the recession and the decline was a sharp one (see Figure 2-4 above). The Programme can respond by supporting the creation of new employment space and utilisation of brownfield land. However, the commercial development market remains fragile in many parts of the region.

2.32 **Spatial disparities:** All parts of the region have suffered from the recession, even formerly very buoyant local economies. However, in absolute terms the recession has impacted on those locations which already had weaker economies, suggesting that the focus of Priority 3 - to address the underlying issues faced disproportionately by certain areas – is on balance more relevant than ever. The role for the Programme in addressing each of the three areas discussed above will be of particular importance in these locations if they are to recover from the effects of the recession as well as to tackle the more deeply embedded economic and social issues they face.

Changing Policy Context

2.33 The period from 2007 to 2011 has been marked by wholesale changes to the national, regional and local policy and funding context for ERDF Programmes. This has followed and reinforced the effects of deep and prolonged economic recession on the West Midlands. Such significant changes in the context in which the Programme is operating have thoroughly tested the flexibility, relevance and consistency of the Programme strategy.

2.34 Even as the Programme commenced, important changes in the policy context were taking place which would influence both the design of the Programme strategy and the early delivery of investments. These originated in both European and UK policy, and the evaluation suggests that the Programme was largely able to absorb and adapt to these changes without significant adverse effects. The key changes are summarised below:

- **European Union's Lisbon Agenda.** The EU's key policy on innovation enterprise was a driver for the ERDF competitiveness programmes. It aimed at developing more competitive knowledge-based economies and to a focus in ERDF on business support and innovation. Its most tangible impact on the Programme was to set a minimum threshold (75%) for Programme investment to be compliant with a list of indicators which translated the Lisbon agenda into specific types of activities. The Lisbon compliance of the West Midlands Programme is assessed in the evaluation report.

- **European Union's Economic Recovery Programme**. Launched in 2008, this initiative resulted in agreement that a proportion of ERDF programme funding should be allocated to activities which directly responded to recessionary conditions (eg. weakness or failure of commercial property markets). This enabled investments to be made in housing, public realm and land remediation, and has been reflected in the pipeline of projects in the West Midlands Programme, particularly in Priorities 1 and 3.

- **Europe 2020 strategy**. Launched in 2010, the Europe 2020 strategy updated the Lisbon agenda and put increased emphasis on EU wide action to tackle climate change and lower carbon emissions. Targets were set for employment, R&D, climate change, education and social inclusion, with ERDF programmes seen as having a contribution to make to achieving them. The initiative also reinforced the EU's emphasis on innovation, employment and lower carbon emitting economic activity. It is not clear whether and how EU2020 will materially affect the 2007-13 Programme in the West Midlands.

- **Business Support Simplification Process and Solutions for Business.** This national initiative sought to improve targeting of and access to business support by reducing the number of different schemes to a limited portfolio of products under the Solutions for Business banner. All ERDF funded interventions were expected to be compliant with eligibility and delivery arrangements of the product portfolio and demonstrate their added value to existing services and investments. This was reflected both in the types of investments in business support products (need to fit with Solutions for Business Portfolio) made by the Programme and the mechanisms for delivering them (focus on Business Link). For example, some dialogue with Government was required to ensure that certain types of start up support (eg. ICT

Advisory Service) were acceptable under the Solutions for Business initiative.

- **Working Neighbourhoods Funding.** The introduction of WNF was intended to provide support to local authorities with the highest concentrations of worklessness and lowest levels of skills and enterprise. It offered a potentially important source of match funding for stimulating enterprise, targeted at some of the region's most deprived communities. However, it is understood that a limited volume of potential projects came forward with WNF match, and cuts to WNF announced in 2010 are likely to further restrict its potential to be a significant match funding source for the Programme. There was also little scope to use Local Enterprise Growth Initiative (LEGI) funding as ERDF match. The West Midlands had limited LEGI coverage in the first place, with only Coventry having secured funding. Cuts to LEGI funding further reduced its potential as a source of match for ERDF.

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

- **Equalities Act**. This key piece of legislation required equality to be treated as an integral consideration in mainstream policy formulation, workforce issues and service design and delivery and accords closely with the Equal Opportunities cross-cutting theme.

Changes Post 2010 Election

2.35 A wider ranging and more substantial set of policy and funding changes emerged after the 2010 UK General Election. The policy priority attached to reduction of the budget deficit has been a critical change as well as the shift in focus of sub-national policy in England from the regional to the local. These changes represented wholesale change in the strategic and delivery context for the West Midlands Programme.

2.36 The nature of these changes and their implications for ERDF Programmes are still emerging in some respects as new approaches to economic development and regeneration are shaped by the Government. This presents both challenges to the West Midlands Programme since there are inevitably some uncertainties, but also new opportunities (eg. for Local Enterprise Partnerships, Local Authorities) to become further involved with ERDF as responsibilities for economic development change. A summary assessment of how the Programme has responded to the changing policy context after the 2010 General Election, and its implications for the remaining period of the Programme is provided in the table below.

Table 2-8: Key Policy Changes Post 2010 General Election

Policy	Key changes	Impacts on Programme and Response	Risks or Opportunities Looking Forward
Closure of Regional Development Agencies	• Abolition of RDAs by March 2012, with AWM entering close down phase through 2011 • Cessation of Single Programme funding	• Loss of single programme funding had some impacts on projects in delivery or in pipeline with activity scaled back or withdrawn. Programme and AWM have sought to minimise impacts on live projects. • Some loss of ERDF capacity and wider AWM resources that have supported Programme. • Consolidation of ERDF team into single ERDF team	• Lack of Single Programme match funding will have uneven effects across Programme - particularly affecting pipeline in Priority 2, elements of Priority 3 and delivery of Priority 5. • Loss of key strategic driver of Programme (AWM) and wider resources provided to Programme for project development and management
Policy shift from English regional governance to localism agenda	• Cuts or closure of wide range of regional organisations and partnerships • Creation of Local Enterprise Partnerships • Expectations of increased role for 3rd sector	• Change from Programme Monitoring Committee to Local Management Committee, with changes to Chair function and membership • Partnerships in WM have responded by seeking alternative means to fund and provide administrative capacity for several key partnerships • LEPs currently lack significant resources to fund capacity and substantively engage with ERDF programmes	• Potential for stronger emphasis on local ERDF investment, with need for coordination if Programme is to continue operating on regional scale • Onus on Local Enterprise Partnerships and local authorities to take strategic lead in generating project ideas and in coordinating ERDF funded activity in particular areas of Programme • Some departmental policies (CLG, BIS etc) still emerging and may take time for match funding sources and policy drivers to become clearer
Local Growth White Paper Oct 2010 and Plan for Growth / Path to Strong, Sustainable and Balanced Growth.	• Changed regional structures: shifts power from central government to local providers, intended rebalance of the economy sectorally and geographically. • Reform in areas which act as barriers to enterprise - tax system, start/finance/grow business, exporting, educated and flexible workforce.	Encouragement of local competition means some localities may miss out on positive ERDF impact if there are easy wins to be made supporting projects in more robust economic areas. - Creation of Local Enterprise Partnerships: new local partnerships responsible for creating growth/jobs - Regional Growth Fund: £1.4bn for creation of private sector jobs Increased vigour/advocacy for increasing access to support and exporting for businesses at the same time as increasing the skills levels of individuals in	- A focus on creating the conditions for growth could include the Programme supporting types of enabling activity e.g. brownfield development, providing the infrastructure to lever investment under P3. - Partnership approaches to growth in local areas likely to enhance existing work of Packages under P3. - Focus on specific sectors to help stimulate growth, including low carbon and manufacturing, likely to complement existing and draw in new activity under P1 & 2. - With the transition from RDAs to CLG, the

		the region.	programme may benefit from greater alignment with the national growth strategy.
Creation of Local Enterprise Partnerships (LEPs)	• New or modified public-private partnerships of local authorities, partner organisations and businesses to be created and then endorsed/approved by Government • Six LEPs now approved in West Midlands	• Early signs from recently completed open call point to strong LEP backing for a number of projects in Priority 2 • Changes already agreed in move from Programme Monitoring Committee (PMC) to Local Management Committee (LMC) will result in prominent role for LEPs in Programme governance	• LEPs will play important role in local enterprise development and business support activity, although direct resources limited as source of ERDF match • Some risk of fragmentation of previously West Midlands wide ERDF funded activity (eg. business support), and onus will be on LEPs to collaborate strategically
Creation of Regional Growth Fund	• £1.4bn between 2011-14, intended for projects which will lever private sector investment, generate economic growth and employment as well as tackling dependence on public sector employment	• Limited impact on Programme to date since no ERDF match sought in Round 1 • 5 West Midlands projects funded under Round 1 (£110m; 24.5% of total)[8]. One project (Middleport Pottery) is currently developing an ERDF project matched against RGF. Region represents second highest proportion of RGF behind London although all successful bids support large orgs (e.g. Jaguar Land Rover, Alstom Grid Ltd).	• Seen as possible match funding source for ERDF, although appears to be limited potential given some significant incompatibilities between two funding regimes • Dominance of large company beneficiaries in 1st round points to particular difficulties , since there are limits on ERDF support to large companies • Potential to consider failed RGF bids for ERDF instead, providing alternative match is secured.
Sustained Reductions in Public Sector Funding	• £6.3 billion cross-government savings for 2010-11, with reductions through 2011-12 and 2012-13.	• Some impacts already as actual and potential match funding for ERDF projects reduced • Likely to be increased demand for publicly funded services (e.g. unemployment services) in face of reduced public sector employment	• Areas particularly affected by employment losses may look to ERDF to support activity to tackle worklessness and create employment • Potential for ERDF funded activity to play important role in safeguarding and creating private sector employment across West Midlands
Significant Changes to Funding and Delivery of Business Support	• BIS to take in-house (or via arms length bodies such as UK:TI and TSB) the future design and coordination of Lisbon type business support	• Uncertainty about future funding and reorganisation has affected a number of existing regional schemes, including Business Link, funded through ERDF and Single Programme	• Potential for a more fragmented picture of business support provision, and need to avoid risk of duplication and competition between publicly funded initiatives • Match funding picture for ERDF investments in

8 Based on Regeneris analysis of available RGF information by region.

	(sectors, innovation, trade and inward investment etc). • Business Link to be replaced by national call centre and website.		business support less clear in absence of Single Programme. Expect greater emphasis on local authorities, LEPs, private sector etc.
Enterprise Zones	• 21 new Enterprise Zones across England – to enable business growth by offering tax breaks, relaxed planning rules and super-fast broadband. • Two enterprise zones established within the Birmingham and Solihull and Black Country under first EZ tranche.	• No direct impacts on the Programme to date.	• New EZs may be hoping to leverage in other forms of finance, including ERDF. The Programme should seek actively to encourage cooperation with EZ partners, aligning package activity where possible with EZ development. • It is possible new developments and/or infrastructure within EZs can be used by Priority 2 projects. • The programme will need to complement the development of EZs, ensuring the sub-regional focuses of the programme reflect the priorities of new businesses within these areas.
Technology and Innovation Centres	• £200m+ to be invested in centres which will enable development of a critical mass of business and research innovation: access to equipment and expertise, emerging technologies and new funding streams.	• Little direct impact on strategy or delivery of Programme to date. However, ERDF investment contributes to work of West Midlands organisations involved in first UK TIC (Warwick Manufacturing Group)	• Programme could look to opportunities to align ERDF investment, particularly under P1, with further, future investment in this and other TICs (eg. emerging Cell Based Therapy TIC).
Higher Education Policy and Funding	• Despite general pattern of cuts in HEI funding, a number of West Midlands universities have secured additional funding in latest HEIF round (2011)	• Current commitments and emerging pipeline suggests that HEIs continue to bring significant match funding to ERDF Programme as well as playing key role in delivery of Priority 1	• HEIF funding allocations will provide further opportunities for match funding new ERDF investments. • Some HEIs likely to see squeeze on availability of match funding and ERDF remains challenging funding to access for HEIs. Sustaining strategic HEI involvement in the Programme will be key.

Assessment of Overall Programme Strategy

2.37 The Programme has benefited from a strategy that is both concise and focused on a relatively small number of key activities. It has proved to be both flexible and adaptable through a period in which economic conditions have been exceptionally difficult and in which public policy and funding have come under intense pressure. The assessment of the overall strategy has highlighted, in particular, the following:

- A strategy which strongly reflects the partnership activity around ERDF which has played a central role in the West Midlands over the past decade. Representatives of key partner organisations, including AWM, Higher Education Institutions and Local Authorities, were centrally involved in drafting the Operational Programme. The result was a strategy which was firmly grounded in established regional strategies and related initiatives. This ensured that the Programme was built on priorities to which partners had, in many cases, already made commitments and on economic development and regeneration activity already in motion in the region. Importantly, this approach also helped to ensure continuity between the 2000-06 ERDF Programme and the 2007-13 Programme.

- A strong strategic focus on enterprise and innovation, with a majority of ERDF resources allocated to Priorities 1 and 2. The need to raise productivity and support economic transition from a traditional manufacturing base in the region feature prominently in the Vision for the Operational Programme, while collaboration between business and the region's knowledge base is identified as a key target. The ex-ante evaluation of the WMOP concluded that the strategy was clearly directed towards achieving the European Union's Lisbon objectives (sustainable growth and employment).

- The adaptability of the Strategy to economic conditions which rapidly deteriorated in the early stages of the Programme. In particular, the breadth of indicative activities in business support and access to finance identified in Priority 2, allied to the European Commission's decision to enable ERDF to be used more flexibly for specific responses to recessionary conditions, proved to be useful when action was required during 2008 and 2009.

- Recognition by the strategy of the need to tackle persistent problems of deprivation, unemployment and economic inactivity in the West Midlands allied to more sustainable forms of urban development. While this had become a less critical priority in the EU's approach to ERDF, the West Midlands nevertheless sought to ensure it was an integral part of the Programme strategy.

- The presence of hooks in the Programme strategy to encourage lower carbon economic activity to develop. In each of the main Priorities (1-3), the Operational Programme set out briefly but clearly the need for action on resource efficiency and the development of environmental technologies.

2.38 Overall, the evaluation has found that no major changes are required to the Programme strategy. It remains highly relevant to the socio-economic challenges that the West Midlands needs to address if it is to improve its economic performance, create employment and strengthen its business base. There should continue to be emphasis on commercial innovation, enterprise formation, improved productivity and the lower carbon economy. The Programme strategy provides the framework to continue to invest ERDF in delivering against this agenda in the West Midlands.

2.39 The evaluation has highlighted some weaknesses in the overall strategy and a number of challenges that partners need to tackle. They include:

- A lack of clear strategic connections between Priorities. This is not an uncommon feature of ERDF Programmes, since Priorities tend to focus on distinct themes with specific financial allocations, encouraging a tendency towards being self-standing. However, the strategy may have benefited from a clearer story about how investment in one Priority (eg. knowledge transfer) would be expected to be supported elsewhere (eg. access to finance in Priority 2). This is not to say that these connections were not made in practice, but they may have been more systematic had the strategy identified a need for it.

- Some inconsistencies and a lack of clarity within Priorities. This is discussed at greater length through the remainder of this report, but it relates to both blurred distinctions between actions in different Portfolios and to mismatches between the key objectives of a Priority and the indicative actions it identifies.

- The need for clearer focus in the way that the Operational Programme used the region's baseline evidence. While the OP makes comprehensive reference to the evidence base, particularly the analysis of strengths, weaknesses, opportunities and threats, the strategy may have benefited from a focus on a narrower set of specific conditions the Programme sought to change. In turn, this would have helped to provide a more coherent target framework.

- The lack of a quantification framework for impacts is a strategic issue that the Programme needs to address. The Operational Programme referred to GVA, employment and carbon emissions which provide established and generally robust measures of impact. However, the lack of a quantified impact target for GVA at Programme level from the outset undermines the ability of the Programme to understand how the outputs and results generated by ERDF investments are producing the economic impacts that are critical to the West Midlands. For example, a project could conceivably deliver large numbers of business assists but have a small positive impact on the regional economy. This data should be a key factor in determining investment decisions.

2.40 Specific recommendations about the investment strategies for the individual Priorities are made in the relevant sections of the evaluation report. The main message about the overall strategy is that no fundamental change is needed at this mid-point in the Programme.

Priority 1 Promoting Innovation, R&D

2.41 The strong focus on HEI research and innovation more broadly continue to be seen as critical to the future of the West Midlands' economy. The Priority 1 investment strategy is strongly compliant with the EU's Lisbon agenda, with the development more innovative SMEs, support for knowledge transfer and action to encourage the commercialisation of research all central to the strategy.

2.42 The P1 strategy provides partners with both sufficient breadth and enough flexibility to enable ERDF to support a wide range of relevant investment from initiatives to encourage SMEs to work with universities to large scale capital investments by HEIs in new, technology intensive research facilities. Building on established strategies including the West Midlands Economic Strategy and the work of the region's Innovation and Technology Council has benefited Priority 1, with the investment strategy being clearly written, well evidenced and anchored in the existing innovation infrastructure.

2.43 No significant gaps in the strategy have been identified, although the review of the Priority (see Section 5 of this report) suggests that demand for ERDF to support capital investments by HEIs, the development of cluster specific supply chains and technological collaboration has been significantly higher than for investments to support the development of more innovative SMEs and graduate enterprise. This is despite the Programme sending clear signals about the need for actions of this kind. The strategy will continue to be relevant and consistent going forward, and no substantial changes are necessary.

2.44 Two issues have been highlighted for partners to consider:

- A lack of clarity about the difference between the brokerage to the knowledge base activities described in Portfolio 1 and the knowledge transfer partnership related activity in Priority 2.

- A related issue about the distinction between provision for brokerage to innovation support in Portfolio 1 and the applied innovation activity which features in the Priority 2 investment strategy.

2.45 Overall, the evaluation has concluded that the Priority 1 strategy is fit for purpose and needs no substantive change for the remainder of the Programme.

Priority 2 Stimulating Enterprise Development

2.46 The evaluation has concluded with positive messages about the Priority 2 strategy. The twin strategic focus on supporting the growth of existing businesses and enabling new enterprises to develop (promoting a more entrepreneurial culture) continue to be seen by partners as key priorities for the West Midlands. The strategy benefited from being rooted in the West Midlands Economic Strategy and the existing business support framework in the West Midlands, as well as the priorities pursued by the Regional Enterprise Board and Finance Forum. The central role of key members of AWM's enterprise team and the Enterprise Board in developing the strategy also worked in favour of the Operational Programme.

2.47 The evaluation has not identified critical gaps in the Priority 2 strategy. In some respects the breadth of the strategy has been an advantage, laying foundations for ERDF to invest in a wide range of enterprise support activities. This is seen as having been a key factor in the Programme's ability to contribute to the region's swift response to the recession.

2.48 A small number of issues relating to the consistency and coverage of the strategy have been highlighted by the evaluation including:

- Some perceived duplication between the Priority 1 and 2 strategies, with the need to increase rates of innovation in SMEs and the push to develop more resource efficient technologies for business featuring prominently in the types of investment that could be made in both Priorities.

- Some uncertainty about how allocations to portfolios have worked in practice, with Priority 2 having identified both sub-portfolios and themes in the investment framework. This has reduced the overall clarity of the Priority 2 strategy and the way in which its indicative activities fit with particular portfolios. The breadth of the strategy may also have been a disadvantage in this respect.

- The absence of quantified impact targets for Priority 2, which is particularly important given the high volume of enterprise support it was expected to generate. Priority 2 is critical to the economic impacts of the Programme both in terms of business formation and job creation, and quantified impact targets would have helped to sharpen the focus of the investment strategy.

2.49 No significant changes to the strategy are required and it will remain relevant to the needs of the region and to its strengths. The strategic challenge for the Programme comes with the wholesale changes that have taken place in enterprise support policy and funding. The closure of AWM, the removal of much of the regional institutional architecture and the closure of Business link represent fundamental changes in the strategic context. How the Programme manages to strike a balance between continuing to invest in West Midlands wide projects and the need to reflect local priorities will be especially important, and the evaluation has made recommendations on this issue.

Priority 3

2.50 At the outset of the Programme the decision to commit resources to tightly defined areas made sense given past experiences of delivering local action plans with ERDF and the particular socio-economic disadvantages faced by these areas. The expectation was that greater impact could be achieved with limited resources by developing a package of planned and complementary activity. Local authority partners were responsible for the drafting of Priority 3, and this was reflected in a strategy in which local priorities in the specific areas covered by the Priority provide the hooks for ERDF investment.

2.51 To some degree the P3 strategy also reflected the objectives of the ERDF programme and those of the WMES in terms of delivering economic growth, tackling areas with disadvantage, and linking those people within these areas to economic opportunities. The P3 strategy provided hooks for investments in pursuit of these objectives and many of the key challenges it identified continue to be faced by the spatial areas (package areas) covered by the Priority.

2.52 However, the broad range of priorities identified in the strategy meant it lacked coherence in its own right. The breadth of the indicative activities contributed to some early uncertainty about the types of interventions that would be eligible for ERDF. It may also have hindered the package approach, since the strategy could have been clearer about how different types of intervention might be expected to work together.

2.53 The evaluation has concluded that aspects of the approach to delivering Priority 3 would benefit from a refresh. A stronger strategic focus on economic impact, translated into projects that will directly contribute to new job creation, should be given renewed emphasis. So too should synergies between the activities funded under Priority 3, with the clearer aim of developing coherent mini-programmes of activity across the package areas.

Priority 4

2.54 Over a long period the West Midlands has sought to play a constructive role in transnational cooperation in the European Union. As well as seeking the benefits of engagement (best practice, lesson learning), it has provided a means to raise the region's profile in Europe, with the West Midlands in Europe initiative being a good example. In this respect, it was reasonable to look to work through the Programme to build on this activity.

2.55 However, the Priority 4 strategy lacked sufficient clarity about both its rationale as part of the Operational Programme and the activities the Programme would invest in. The ex-ante evaluation of the Programme points to the need for revisions to be made during the drafting process to sharpen the focus of Priority 4 and link the strategy more clearly to the main Priorities, particularly Priorities 1 and 2. Despite these changes, the strategy should have spelled out more explicitly how these connections should be made, and provided more detail about what ERDF would fund.

2.56 The evaluation has concluded that its continued presence as a separate component of the Programme is now limited and the decision taken by the Programme to close it down is a sensible one given the experience of delivering Priority 4 and in spite of the presence of a number of good quality projects.

Priority 5

2.57 The Priority 5 investment strategy for Technical Assistance (TA) is common to all ERDF programmes and centres on the need to build capacity within the region to develop and run projects, the effective management of ERDF funding and the need to market and publicise ERDF investment opportunities.

2.58 There is little to suggest that the P5 investment strategy needs any major change, even in the face of the closure of AWM and the shift to the Department for Communities and Local Government as the managing authority for the Programme. If anything, ensuring the capacity to manage and administer the Programme effectively across the West Midlands has assumed even greater importance. The strategic focus should continue to be on providing this capacity to run the Programme, and on ensuring that partners have the capacity to stimulate interest in applying for ERDF, provide guidance about how to approach project development and contribute to the coordination of ERDF related activity through the remaining period of the Programme.

2.59 The key challenges for Technical Assistance centre on the future availability of match funding and the potential problems the West Midlands may face in ensuring it has sufficient capacity to develop projects and bring them through to the delivery stage. The past year has seen a tightening of resources in both the European Programme Management Team and in partner organisations. With significant ERDF investment still to commit, any further squeeze on capacity could compromise the Programme's ability to meet its expenditure targets and to maintain the low error rates that have been one of its key strengths.

Conclusions

2.60 Overall, the evaluation concludes that the West Midlands Operational Programme Strategy is still relevant and consistent. It has offered partners a flexible and adaptable framework through which to invest in action to support the region's economy through a particularly difficult period, and its vision and objectives remain highly relevant to the challenges it faces in future. The key messages drawn from this review of the Programme strategy are set out below:

- Significant changes in the socio-economic context since the strategy was developed. Rates of job creation have fallen significantly compared to pre-recession levels, while businesses have faced unprecedented difficulties in securing finance from the banking system, and exceptionally testing trading conditions. While the Programme set out to support the continued transition of the West Midlands economy, higher levels of productivity and increase value added, mitigating the effects of the severe recession quickly became a strategic priority after 2008. The strategy provided partners with the ability to work with ERDF to respond to these conditions.

- Wide ranging and substantial changes in policy and funding which present a significant test to the Programme strategy. In particular, the policy shift from regional to local governance represents a fundamental change in the organisational context for the Programme. Renewed emphasis on localism, including the development of Local Enterprise Partnerships, are changing expectations about the scale and nature of the investments the Programme will make.

- These policy changes present substantial challenges, but also opportunities to which the Programme needs to respond strategically. With the closure of AWM and effectively the loss of several regional strategies along with critical sources of match funding and delivery capacity, there is a need to engage creatively with both public and private sector partners across the West Midlands to secure new ERDF investments. In this respect, the Programme is well served by a strategy and a strong partnership that has underpinned it, and this should enable a positive response to these opportunities.

- The evaluation has found the strategy to be fit for purpose, being largely both coherent and consistent. The emphasis it places on innovation and enterprise is a particularly important feature and partners need to maintain this focus through to the conclusion of the Programme.

Recommendations

2.61 A number of specific recommendations about individual Priority strategies are made elsewhere in the report. The evaluation's recommendations on the overall Programme strategy are set out below:

No major changes to the Operational Programme strategy required

2.62 The evaluation has concluded that there is no requirement to make significant and substantive changes to the Operational Programme strategy, including major changes to the allocations to individual Priorities.

A need for some clarification and action to address inconsistencies within Priorities...

2.63 The Programme would benefit from action to adjust and clarify the individual Priority strategies in specific places. These are set out separately in the review of each of the Priorities below, but centre on clearer descriptions of indicative activities and the removal of potential areas of duplication. The Programme might also pursue this through the descriptions of activities in future calls for investment.

...and a need to strengthen strategic connections between Priorities

2.64 There is a particular need to strengthen links between Priorities 1 and 2 where the Programme's strategy for investment in innovation and the commercialisation of R&D should be more clearly linked to its broader strategy for enterprise development in the West Midlands.

Develop a Programme impact framework

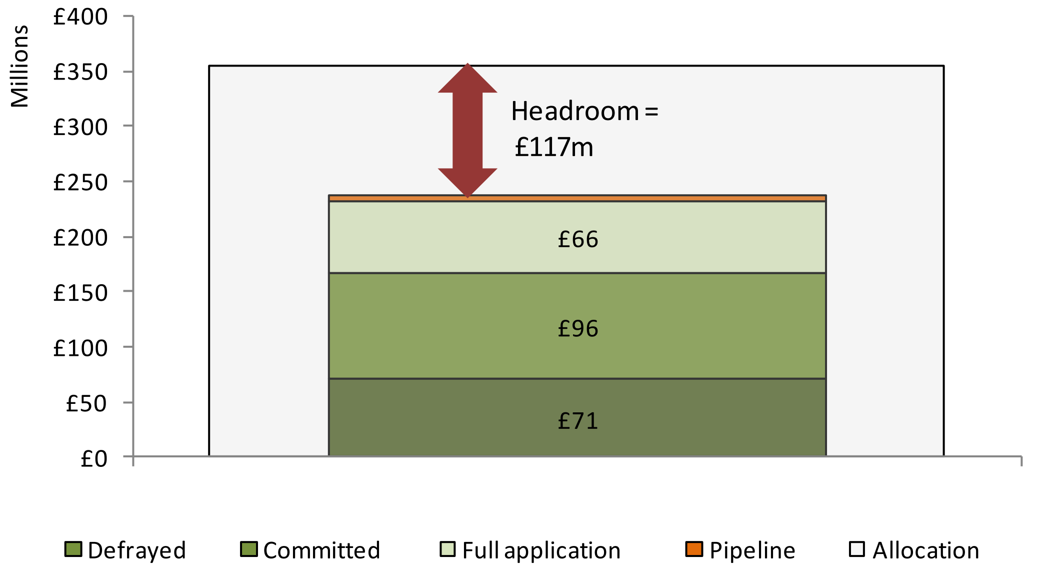
2.65 The absence of a framework of Programme impact targets is a strategically important issue and one that needs to be addressed. This will also help to ensure a strong and sustained focus on economic impacts, particularly the creation of new businesses and private sector employment in the West Midlands, as the effects of the prolonged recession continue and public sector austerity measures.

3. Review of Programme Performance

Programme Expenditure

3.1 The Programme has made reasonably good progress towards its expenditure targets, reflecting early commitments of investment to large projects and a steady flow of new projects. Unlike other ERDF Programmes in the English regions, the West Midlands has not invested in either a JEREMIE project (regional venture capital loan funds) or JESSICA (Joint European Support for Sustainable Investment in City Areas). These have typically provided a means to commit substantial ERDF investment, in effect to single projects.

Figure 3-1: Programme allocation, spend and commitments (May 2011) £millions



Source: Programme monitoring data and Operational Programme
Defrayed – ERDF project expenditure spent and claimed
Committed - value of projects currently delivering / approved at full and awaiting contract, but where ERDF not yet spent
Full application - projects endorsed at outline, working on full application or in appraisal
Pipeline – projects at all stages before outline endorsement

3.2 The key headlines on Programme expenditure at the end of May 2011 are as follows:

- 20% defrayed expenditure (£71 million) plus 27% (£96 million) committed
- 18% (£64 million) at full application stage
- Headroom of 33% (£119 million) with only £5 million showing in the Programme's data on the pipeline in May 2011 although this does not take account of the results of the recently completed open call in 2011.

3.3 Total headroom rises to £183 million if the value of projects not yet approved - ie those at full application or in the pipeline - is regarded as headroom. However, the Programme reports a very good rate of conversion of projects which have secured outline approval through to contract. In addition, the recently completed open call for projects in Priorities 1 and 2 has resulted in applications with a total ERDF value of £100 million coming forward, and the prospects of a significant proportion of the Programme's headroom being committed appear to be good. Furthermore, there is some uncertainty about the additional gains in headroom created by exchange rate changes as the value of the Euro rose against Sterling. Volatility in international currency markets may result in these gains being reduced, possibly significantly, if the Euro decreases in value against Sterling.

3.4 As Figure 3-2 shows, there is marked variation in expenditure performance across the Priorities.

- Priorities 1 and 2 have made good progress with 21% (P1) and 32% (Priority 2) defrayed and commitments representing an additional 34% (P1) and 24% (Priority 2) of total allocations.

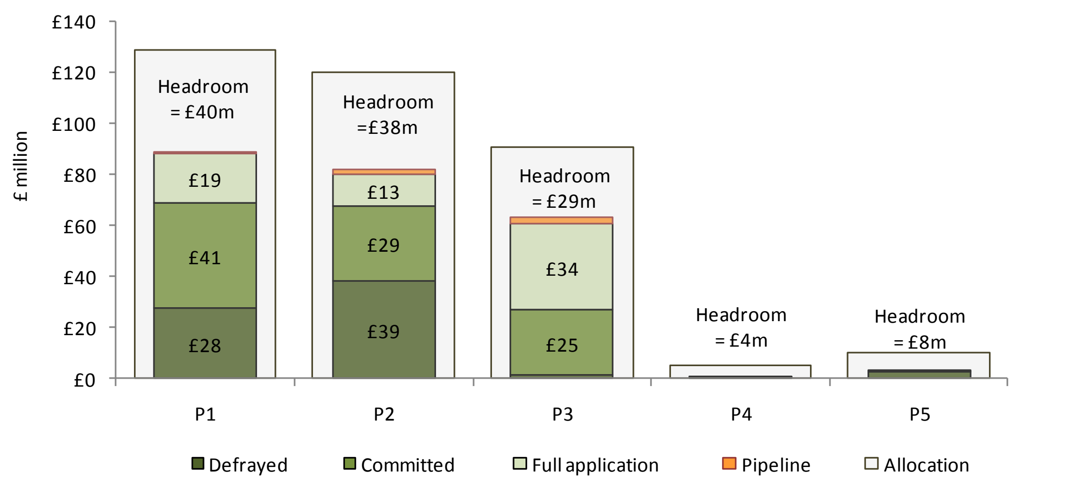
- Evidence from the recently completed open call for Priority 1 and 2 projects suggests that the Programme should be able to further strengthen its pipeline with a good range of projects coming forward under several portfolios.

- Performance in Priority 3 has been particularly weak, with 1.7% defrayed although commitments at the end of March 2011 represented 28% of allocation and a further 35% of the allocation was in projects at the full application stage.

- Only 9% was defrayed in Priority 4 by the end of May 2011 with a further 8% committed reflecting difficulties in securing suitable projects and contributing to the decision to close the Priority to new applicants.

- Defrayed expenditure in Priority 5 amounted to 26% at the end of May 2011, with resources having supported both the core capacity of the Programme team in AWM and a small number of external partners providing specific supporting services.

Figure 3-2: Allocations, spend and commitments by Priority (May 2011)



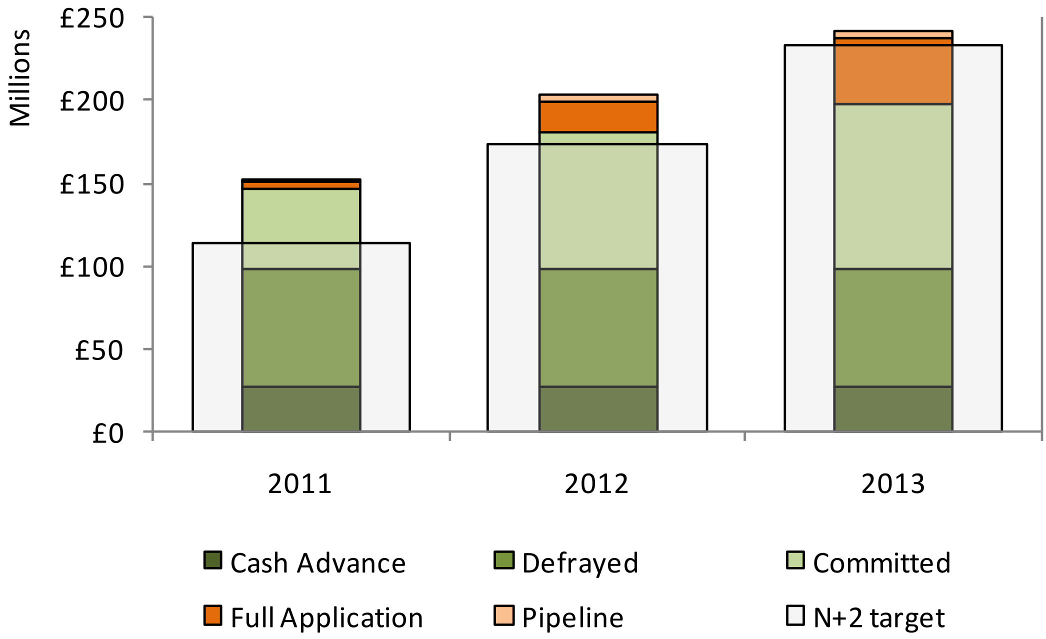
Source: Programme monitoring data and Operational Programme
Defrayed – actual expenditure
Committed - projects currently delivering / approved at full and awaiting contract
Full application - projects endorsed at outline, working on full application and in appraisal
Pipeline - Projects at all stages before outline endorsement

N+2 and Programme Contracting Rates

N+2 Progress

3.5 Progress towards the Programme's N+2 targets is summarised in Figure 3-3 below[9].

Figure 3-3: Current progress against N+2 targets (May 2011)



Source: Programme monitoring data and Operational Programme
Committed = projects currently delivering / approved at full and awaiting contract
Full application = projects endorsed at outline, working on full application and in appraisal
Pipeline – Projects at all stages before outline endorsement
Note: N+2 targets have been converted to £s using an exchange rate of 0.89

3.6 Based on past and predicted spend of committed projects, the Programme is broadly on track to achieve its 2011 N+2 target. However, the EPMT has previously identified a risk that the effects of exchange rate changes could create some additional and unanticipated headroom for 2011, while losses of match funding resulting from the tightening of public sector budgets could also leave the Programme slightly short of its target.

3.7 The N+2 targets for 2012 and 2013 look challenging and will require significant expenditure by committed projects as well as a high rate of conversion of pipeline to live projects. This has been acknowledged by the Programme. The criteria that the Programme uses to identify those pipeline projects which will be given highest priority in terms of project sponsor, appraisal resources etc. factor in the potential of the project to commence and claim expenditure in the shorter term, and this should help to mitigate this pressure on the N+2 target.

3.8 There will be some risk of slippage during 2012 given continued pressure to deliver savings

[9] 'n+2' is a formal ERDF requirement stating that annual allocations must be spent within a two year period. For example, financial allocations for 2007 must be spent and claimed by 2009.

in public sector budgets and the inevitable difficulties that the Programme and some projects will experience in moving from approval to contract and delivery. The Programme's prioritisation framework should further emphasise capacity to begin spending quickly as one of its key criteria.

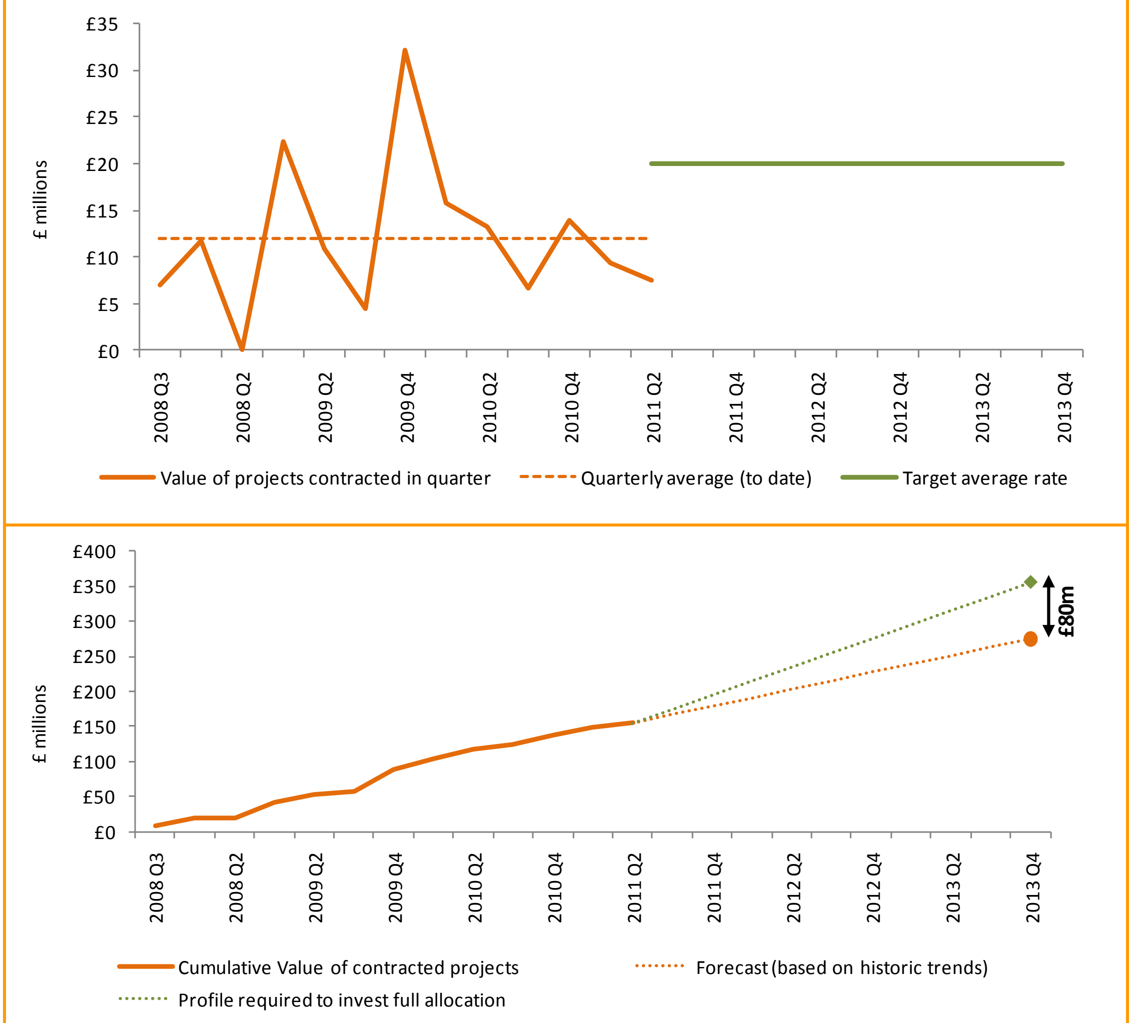
3.9 Current problems in global financial markets and continuing exchange rate volatility mean that exchange rates could either reduce or increase headroom, and this creates uncertainty both for the forecasting of N+2 performance and more broadly for future Programme commitments, since allocations could rise or fall significantly as the Sterling value of the Euro changes.

Contracting Rates

3.10 The quarterly contracting rates achieved by the Programme are shown in Figure 3-4 below. The actual value of contracts in each quarter clearly varies significantly given the periodic nature of bidding rounds and the rate at which the Programme is able to contract with approved projects.

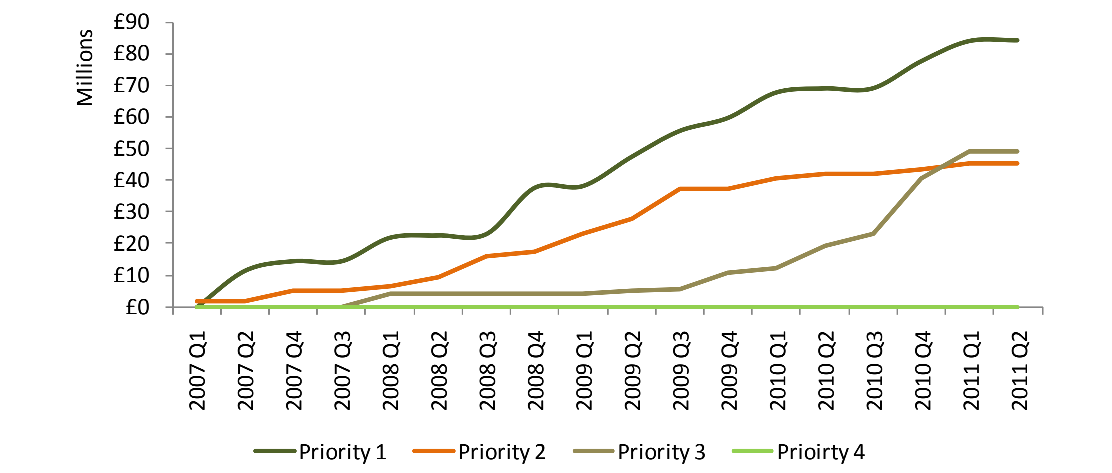
3.11 The value of outline applications submitted has built up steadily in Priorities 1 and 2. The profile in Priority 3 suggests that the volume and value of applications increased significantly from the third quarter of 2010, following a period in which little progress was made between 2008 and the first half of 2010. Contracting performance in Priority 4 reflects the low level of ERDF investment activity from the outset.

Figure 3-4: Programme Contracting Rate



Source: Programme monitoring data

Figure 3-5: Cumulative value of outline applications submitted (May 2011)



Source: Programme monitoring data

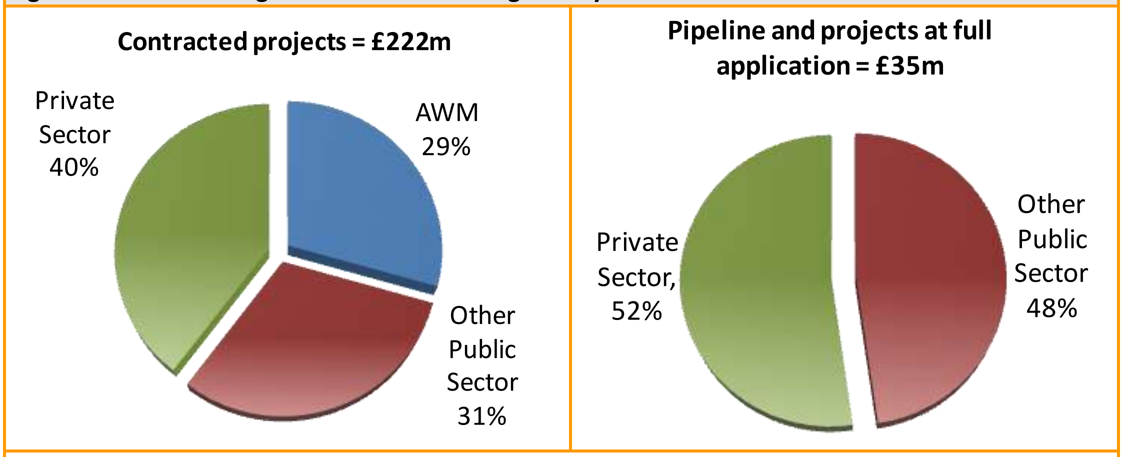
3.12 The rate at which the Programme is able to contract and defray expenditure over the remainder of its lifetime will be a critical factor in determining whether it meets both its N+2 targets and its overall expenditure targets. The data indicate that quarterly average rates of contracting will need to be increased by 68% to achieve full Programme expenditure. A continuation of the historic trend rate in contracting would leave the Programme £80 million (at current £:€ rate) short of its full allocation, pointing towards the need to increase the level of contracting activity in the next 1-2 years, continue to approve large projects (with substantial ERDF take) and ensure that newly contracted for projects begin to defray ERDF expenditure as quickly as possible.

3.13 These requirements will be challenging in the face of a public sector policy and funding climate in which match funding is more scarce and the opportunity to continue developing large projects operating on a regional scale has been reduced following the closure of AWM and the loss of Single Programme funding.

Match Funding

3.14 On the face of it, the Programme has achieved a healthy balance of public and private sector match funding against its ERDF investment. However, the position on private sector match funding masks heavy dependence on the Grants for Business Investment project (£41 million private sector match). Without the inclusion of this project in the total, private sector match would fall to around 25%.

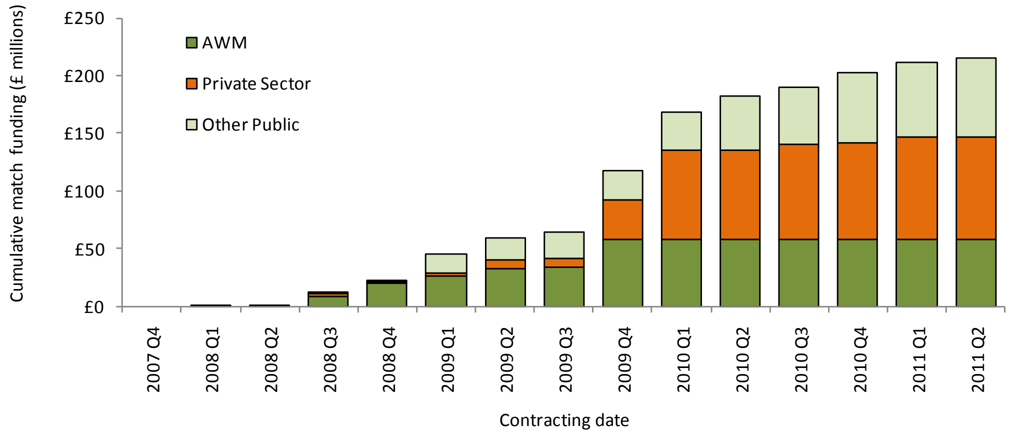
Figure 3-6: Overall Programme Match Funding at May 2011



Source: Programme monitoring data

3.15 The profile of match funding has changed over time, with an increased role for private sector match evident from late 2009 onwards.

Figure 3-7: Changing profile of match funding, 2007-11



Source: Programme monitoring data

3.16 The Programme's decision to include private sector match in its match funding targets from 2009 has played an important part in the changing profile of match funding. The Programme originally excluded private sector match, but approached the European Commission to approve the change when the impact of reductions in the availability of public sector funding created additional pressure to secure alternative sources of match.

3.17 Private sector match funding is likely to play an increasingly important role in the way the Programme invests ERDF in future. The continued tightening of public sector budgets coupled with gradual economic recovery in the private sector creates new opportunities to attract commercial investment to work with ERDF. The Programme has already geared up to take this opportunity, both through arrangements to enable SME contributions to the cost of business assists in Priority 1 projects and through partnership arrangements in projects in which universities are working with companies, including a number of knowledge transfer and demonstrator projects.

3.18 An initial and significant reduction of Single Programme funding in 2009 may have proved to be an advantage for the West Midlands ahead of the loss of Single Programme funding from 2011-12 and other cuts in public sector funding post 2010. The most recent evidence on the pipeline suggests that applicants are bringing a diverse range of match funding sources to the Programme. This may be an indication of the earlier Single Programme cuts having helped to reduce dependence on this as a match funding source for ERDF.

Programme Targets

3.19 The Programme's overall targets are summarised in Table 3-1 below. This shows the full range of outputs and results indicators together with the target set by the Operational Programme.

Table 3-1: Programme Targets		
	Indicator	**Total**
Outputs	Bus. Assist to improve performance (of which SME)	22,441 21,554
	Bus. Assist - Social Enterprise	67
	Bus - new collaborations with knowledge base	3,288
	Public / private investment (£m)	19
	Brownfield land reclaimed / redeveloped (Ha)	10
	New/ upgraded floorspace (000s sqm)	100
	People assisted to get a job	3,297
	People assisted to start a business	297
	Floorspace BREEAM (000s sqm)	75
	Participant in exchanges/ study visits	350
	Capacity building initiatives	16
	Research studies	8
Results	Gross jobs created	10,519
	Gross jobs safeguarded	1,125
	New businesses created / attracted	2,495
	Graduates placed in SMEs	1,000
	CO2 reduction per project type	0
	Pilot best practice implementations	15
	New networks established	5

Source: West Midlands Operational Programme

3.20 We have undertaken a detailed review of the quantification framework for the Programme. That is, the range of output, result and impact indicators and targets which are used to guide investment activity and monitor progress. This framework also includes the socio-economic and environmental baseline against which the change in contextual conditions is measured.

3.21 The review of the quantification framework has reached the following conclusions:

- The socio-economic baseline is very comprehensive (including hundreds of indicators), drawing on the most up to date data available at the time that it was drafted. It has been updated recently, providing detailed analysis of the changes which have occurred up to 2009/10 (subject to the availability of the data). However, the baseline does not identify a sub-set of key indicators which the programme is seeking to influence and hence how its success in changing economic circumstances can be judged.

- The Programme has a relatively small number of output and result indicators (at least compared to most other regions), reflecting the desire on the part of partners to focus on a manageable number of key indicators. It is noticeable that a number of the indicators (mostly result indicators) which require higher levels of evidence from beneficiaries have not been included (eg. SMEs with improved business performance etc). Whilst this is sensible in principle, in our view the set of selected indicators do not provide as rounded a view of what a number of priorities are seeking to achieve as it should. This is particularly the case with Priority 1 and the measurement of the results of innovation and R&D.

- Impact indicators and targets have not been set for the Programme. Although this was accepted by the Commission at the time the Operational Programme was approved, it nevertheless limits the ability to assess the ultimate contribution that it achieves in overall economic terms. The Programme risks less targeted investment if impact targets are not clear and measurable.

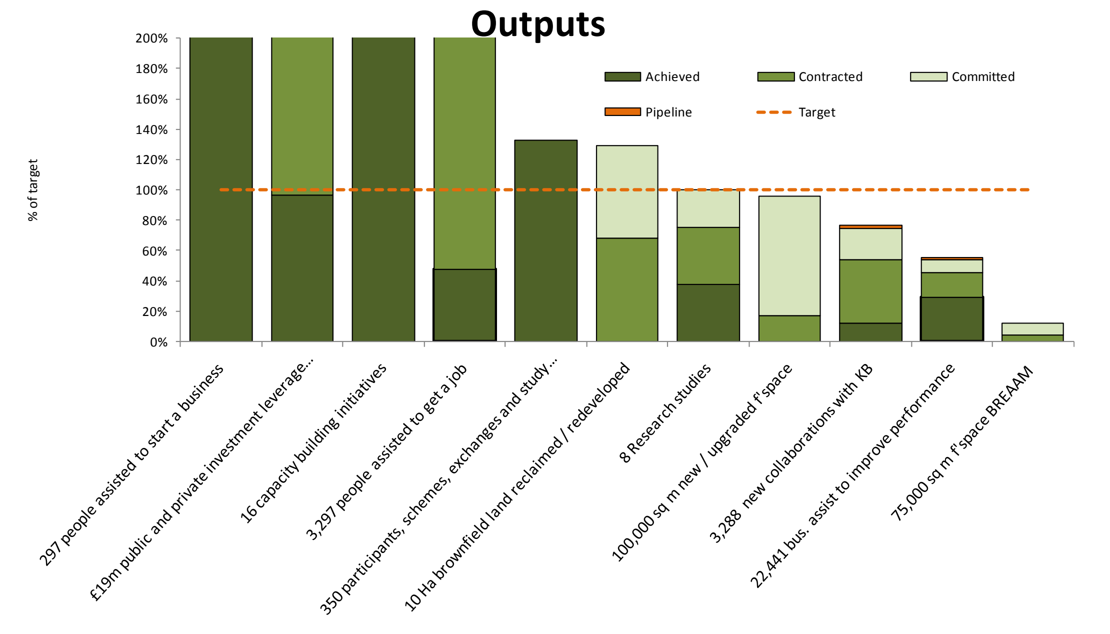
- The Programme Executive sought to set indicator targets for outputs and results which were realistic and achievable and in this regard they should be applauded for a successful negotiation with the European Commission. However, a significant number of these targets were, we believe, set much too low and have subsequently been exceeded or are due to be exceeded on the basis of the current project commitments. The upshot is that a number of these indicators no longer provide a helpful guide to progress or equally importantly, the allocation of resources within the Programme as a whole or particular priorities.

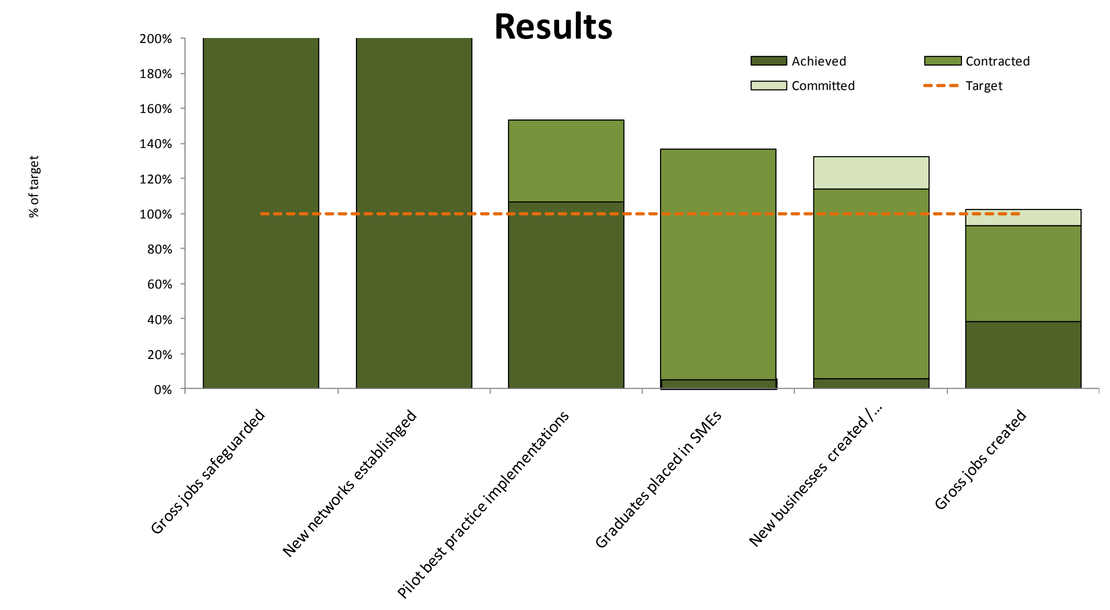
- A small number of other indicators were, in our view, set at too high a level and may not be capable of achievement given the available headroom. This could be the case with the floorspace developed target and almost definitely the case with the BREEAM target (which is set at three quarters of the general floorspace target and which is much more costly to provide).

Outputs and Results Progress

3.22 Progress towards the Programme's outputs and results targets is summarised in Figure 3-8 below. It shows the position in terms of achieved outputs and the potential contributions of committed and pipeline projects at May 2011. Those indicators which are particularly critical to achieving economic impacts are highlighted.

Figure 3-8: Overview of performance on output targets (May, 2011)





Source: Programme monitoring data and Operational Programme
Committed = projects currently delivering / approved at full application and awaiting contract.
Full application = projects endorsed at outline, working on full application and in appraisal.
Pipeline – Projects at all stages before outline endorsement
Note: Performance for indicators marked with * exceed the axis range. The % figure denoted in white text refers to the sum of the committed and full application outputs.

3.23 Progress to date in achieved outputs and results is mixed, principally reflecting the relatively small number of projects which are either complete or a substantial way into their delivery phase. The key messages highlighted by the evaluation are:

- Some targets have already been exceeded, including the people assisted to start a business target and the jobs safeguarded target.

- ➢ Two Priority 2 projects (Business Link core contract and the Small Business Loans and Mentoring project operated by the Princes Trust) account for around 1,600 people assisted to start a business, far exceeding the target of 297 set by the Programme. This suggests that the Programme had the potential to achieve much more against this indicator.

- ➢ The jobs safeguarded target (1,125) has already been substantially exceeded (260%) with three projects (Business Link core contract, Manufacturing Advisory Service and the Princes Trust loans and mentoring project) accounting for more than 3,300. This reflects a climate in which ERDF backed support to businesses, along with Single Programme funds and others in difficult trading conditions has helped to reduce the potential for redundancies.

- Committed projects and those at the full application stage are projected to exceed 9 of the 14 outputs and results targets for Priority 1. This is largely the result of a small number of key projects which account for the majority of the forecast outputs and results from the full range of projects the Programme is working with. For example, currently committed projects would deliver 114% of the target (2,435) for businesses created or attracted. Four projects account for around 70% of these forecast results, including the Business Link core contract, Princes Trust projects and the Coventry and Warwickshire Enterprise Growth project.

- For the critical jobs created target, good progress has been made with 4,000 (c. 40%) of the Programme target already achieved, and committed projects forecast to slightly exceed the overall target. Again, much is dependent on a small number of projects. Three projects (Business Link, Manufacturing Advisory Service and Princes Trust Loans and Mentoring) account for 80% of the jobs created already achieved.

- Progress against the businesses assisted to improve their performance target currently stands at 29% achieved and 25% forecast in projects at committed or full application stage. This is broadly in line with the Programme's financial performance. The overall target for the Programme of 22,400 is substantial, reflecting the scale of ERDF investment allocated to enterprise support activity. This is also a key output indicator for the Programme, since those businesses assisted would be expected to go on to create jobs (or sustain existing jobs), develop new products or services and deliver additional economic output to the West Midlands economy. While it is reasonable to assume that further progress will be made towards the target, the conditions in which large volumes of business assists can be delivered have become more difficult with the loss of Single Programme funding, the closure of Business Link and significant reductions in the availability of public funding for business support. This represents a significant challenge to the Programme.

- The Programme is currently carrying out a review of its data on large company beneficiaries with the aim of establishing precisely what number and proportion have been supported as a percentage of overall business beneficiaries. It is understood that the 4% ceiling for large companies supported, representing c. 880 businesses, may already have been reached or slightly exceeded through committed and live projects, and this has implications for the way that the Programme is able to work in future with this type of company (eg. as part of collaborative technology projects in Priority 1).

- To date, little has been achieved in terms of the physical development targets, with no achievements to date on floorspace and brownfield land indicators and only a small proportion of floorspace target contracted. This reflects the slow progress being made in Priority 3, although it is understood that a number of larger scale projects in the pipeline could enable the Programme to exceed the brownfield land target and progress on floorspace creation is also expected to pick up through projects in the pipeline. Further progress towards meeting these targets is important given their potential long term contribution to providing the infrastructure for businesses to invest and create new employment.

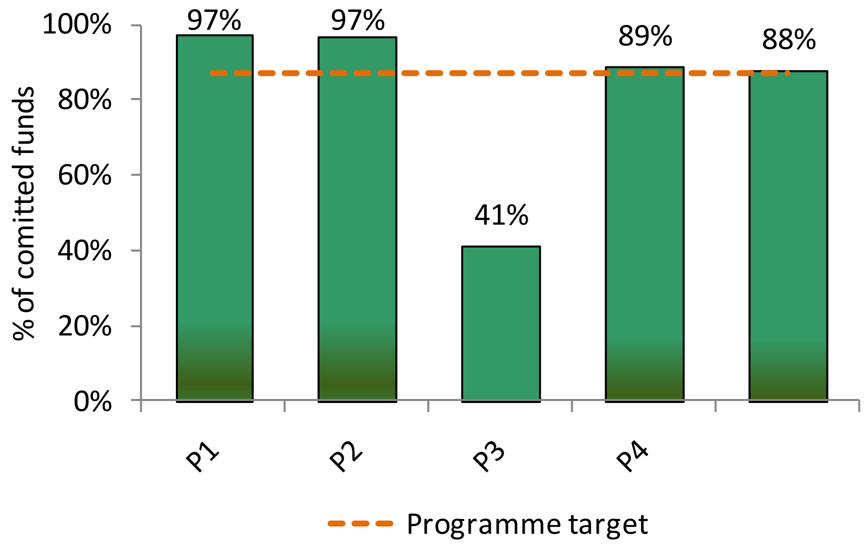
3.24 It is important to note that the evaluation has not carried out a comprehensive audit of the monitoring of outputs and results, although it does make a number of observations about the general approach the Programme has adopted.

Lisbon Compliance

3.25 All ERDF Programmes are required to meet a 75% threshold for the compliance of their investment with the European Union's Lisbon criteria. This is the measure of the extent to which the Programme has focused on innovation and enterprise, and originates from the EU's Lisbon agenda, a policy initiative to create a more innovative and business led European economy. The extent of Lisbon compliance in the Programme is determined by assessing investments against a set of Lisbon categories defined by the European Union (eg. technology transfer). For example, if a project is judged to be entirely focused on technology transfer, it would score 100% against this category. The West Midlands Operational Programme concluded that 87.5% of its funding would be spent on Lisbon compliant activities, significantly higher than the minimum requirement.

3.26 The investment strategies in Priorities 1 and 2 in particular are substantially Lisbon compliant, and as current contracted project activities stand, the Programme has achieved an overall rate of around 88%, significantly exceeding the 75% target. Investments in Priority 3 are less likely to be Lisbon compliant, and this is reflected in a figure of 41%.

Figure 3-9: Overview of Lisbon compliance (May, 2011)



Source: Programme monitoring data

3.27 Priority 1 and 2 commitments by Programme are strongly Lisbon focused, reflecting central role of HEIs and wider knowledge base together with emphasis on enterprise development. While some Priority 3 investments are Lisbon compliant, consistent with the focus on opportunities for people in disadvantaged areas, the majority are not. On this basis, there appears to be little flexibility for the Programme to further invest in non-Lisbon compliant activity if it is to meet the 88% compliance level identified by the Operational Programme. The alternative may be to seek to reduce the Programme target by bringing it closer to the EU's 75% formal threshold if decisions are taken to invest in more non-Lisbon compliant project activity.

Conclusions

3.28 The West Midlands Programme has made good progress to date given the challenging conditions that partners have faced over the past two years in particular. The following specific conclusions are drawn from the assessment:

- Steady progress has been made on actual expenditure, although the picture varies significantly across the five priorities. Priorities 1, 2 and 5 have all defrayed in excess of 20% of their allocations. Priority 3 has been the weakest performer, with under 2% of expenditure defrayed at the end of May 2011. Priority 4 has also been a weak performer, although the Programme has responded by closing the Priority to new applicants and considering how P4 resources might be reallocated.

- Reasonable progress has been made in committing ERDF and building a pipeline of future investments. Again, the picture varies across the individual Priorities. Priorities 1 and 2 are in a good position in terms of project activity that has secured full approval and passed into the contracting stage. In both cases, the pipeline (projects which have been endorsed post-outline) is more limited, partly reflecting the significant policy and funding changes that have occurred over the past year. The pipeline for P1 and Priority 2 should significantly expand following a successful open call for new projects which concluded in June 2011 although there may be issues around the quality and suitability of some of these projects. Despite slow progress on actual expenditure, Priority 3 is in a good position in terms of the current pipeline, with projects accounting for 35% of the allocation for P3 at full application stage.

- Some critical performance challenges now face the Programme. While steady progress has been made to date, the Programme faces a challenging future if it is to achieve the contracting rates required to fully invest its allocation of ERDF resources. Prior to 2010, the Programme was substantially matched with Single Programme funding, benefiting from the constructive linkages that developed with AWM's wider activities. With the loss of Single Programme funding, the closure of AWM and an extended period of public sector austerity measures ahead, there is less certainty about both the Programme's capacity to develop sufficient new projects both in quality and value terms, and the related ability of applicants to secure match funding.

- A mixed picture on outputs and results achieved to date. Some indicators have already been exceeded (eg. people assisted to start a business, jobs safeguarded) as a result both of large scale business support projects delivering a substantial volume of activity in the earlier stages of the Programme, and targets that were fairly conservative. For other indicators (eg. jobs created), reasonable progress has been made for similar reasons. While this raises questions about whether more stretching targets could have been set for these indicators, it also reinforces the point that the Programme sought to agree realistic and achievable targets at the outset. Performance in achieving the Programme's physical development targets (floorspace developed, Brownfield land remediated) has been slow, reflecting the weak performance of Priority 3. More generally, progress in terms of achieved outputs and results is consistent with a Programme in which many projects are still at a relatively early stage of delivery and/or have not yet reported on their achievements.

- Committed projects should deliver against the majority of key output and results targets. Commitments to projects made by the Programme have the potential to enable it to achieve the majority of its outputs and results targets, including those which are critical to achieving economic impacts (jobs and businesses created). The physical development targets will remain challenging given the pace at which the Programme is investing in the development of floorspace, although pipeline projects could enable significant progress to be made against the brownfield land indicator. The floorspace target will be particularly testing, and a recommendation about this is made in the review of Priority 3.

- The outputs and results framework needs to be reviewed. As highlighted above, partners were successful in negotiating a quantification framework for the programme which avoided the selection of too large numbers of indicators but also set targets which were seen to be achievable. Whilst this could well have been sensible at the time, the framework has proved to be less coherent in practice than intended and has now lost much of its value as a guide to resource allocation and as a monitoring and evaluation tool.

- The West Midlands Programme is performing well on Lisbon compliance, reflecting the progress it has made in investing resources in innovation and enterprise development activity in Priorities 1 and 2. Currently the Programme comfortably exceeds the EU's requirement to invest a minimum of 75% of resources in Lisbon compliant activities, and is on track to achieve the stretching 88% compliance level identified in the Operational Programme. There is little flexibility to invest further in non-Lisbon compliant activity if this 88% figure is to be met, and partners need to consider what bearing this will have on future decisions to vire resources into Priority 3 or Priority 5, and on decisions about investments in non-Lisbon compliant projects.

Recommendations

3.29 The following recommendations are made about the overall performance of the Programme and its responses to the challenges of achieving strong performance over the remaining Programme period.

No significant change required to investment approach and allocations

3.30 The evaluation has not identified a requirement for wholesale changes either to allocations to the main Priorities. This is consistent with the assessment of the Programme strategy which suggests that it continues to reflect the key opportunities and challenges for the West Midlands. However, some changes are required within individual priorities and these are identified elsewhere in the evaluation report.

Close down Priority 4 and take decision about vireing resources to other Priorities

3.31 The exception on the allocation of Programme resources is Priority 4 which should now be formally closed to new applications and the uncommitted £4.4 million vired into other Priorities. The evaluation report (Priority 4 section) makes specific suggestions about options for the Programme but reallocation to Priority 5 or a JESSICA project would appear to be the most realistic if it proves to be deliverable.

Focus on output and results performance

3.32 With substantial numbers of projects now in delivery, the Programme should focus more on outputs and results performance. This includes how effectively projects are delivering contracted outputs and results, where significant problems are arising and the extent to which commitments and the project pipeline will exceed, meet or undershoot targets. There are inevitably challenges in having a full, up-to-date picture of outputs and results performance given different approaches to reporting amongst projects or complications relating to match funding losses and eligibility issues. Although challenging given current administrative resource constraints, the Programme should look to further strengthen its contract monitoring processes in terms of both achievements and risks on outputs and results performance. The Programme has already recognised the need to produce more in depth data on outputs and results performance and to ensure that this aspect of performance management is dealt with more systematically by the LMC going forward.

Review the Programme's position on large company beneficiaries

3.33 While the evaluation has not reviewed specific Programme data on large company beneficiaries, the EPMT's assessment is that the 4% ceiling on large company beneficiaries may already have been reached or exceeded. Large companies have benefited from ERDF investments in the region in Priority 1 and 2, and partners perceive there to be potential to engage large companies more extensively in Priority 3 than has been the case to date, specifically with property developments. However, this is likely to be heavily restricted by state aid rules in this area and by ERDF Article 55 rules on revenue generation from ERDF investment. The Operational Programme also indicated that larger companies would be supported where necessary for the 'satisfactory implementation of the operation', with the focus put on supply chain, knowledge transfer, innovation and new technologies including environmental technologies.

3.34 For the Programme to be able to continue to work with large companies (eg. as partners in collaborative projects in Priority 1), there is a need both to clearly establish the volume and nature of large companies that have already benefited from the Programme and to explore how further activity involving large companies might be accommodated. One option may be for the LMC to seek Commission approval for a small increase in the threshold, although any decision would need to be informed by a review of evidence on the level of increase likely to be appropriate given future investments by the Programme rather than a simple adjustment to the ceiling. In any decision to review the position on large companies partners will also need to consider the specific provisions of the Operational Programme and those ERDF regulations which influence support to large companies, including the limitations on revenue generation imposed by Article 55.

4. Review of Priority One

Priority 1 Strategy and Objectives

4.1 Priority 1 sets out to promote innovation, research and development in the West Midlands. The Priority axis was designed to support activity to increase investment in R&D and innovation, and to stimulate commercial demand for innovation support from the region's businesses. It focused on five of the region's business clusters identified as having the greatest potential and need for innovation:

- Health and medical technologies
- Energy
- Advanced materials and nanotechnology
- Digital media (and ICT)
- Transport technologies

4.2 Priority 1 was allocated €145 million, representing £124.7 million at the current exchange rate (€1=£0.89). This amounted to 36% of the overall Programme, a level consistent with the requirement that ERDF competitiveness programmes focus on innovation and enterprise.

4.3 The rationale for Priority 1 was firmly anchored in both the region's socio-economic evidence base and existing strategies including the WMES and the Innovation and Technology Council's strategy. At the heart of P1 was evidence of lagging performance in commercial R&D investment, a lack of innovation within the SME base and a need to strengthen links between the research base and businesses in the region. These strategies identified the strengths of the region in the manufacturing sector, the presence of universities with strong, internationally significant research capabilities in advanced technologies and the need to capture a bigger share of growing international markets in specific, technology driven sectors of the economy. Priority 1 has clearly been designed around this evidence and the priorities established through these strategies, and this further reinforces the clarity of the P1 investment strategy.

Delivery Approach

4.4 The delivery approach for Priority 1 focused on:

- The West Midlands HEIs and their roles both in delivering more commercially focused research activity and higher levels of graduate enterprise/employment.
- Investments in specialist research facilities, chiefly located within or across the region's HEIs, with particular emphasis on commercialising the outputs from these facilities and enabling SMEs to access emerging and established technologies.
- Using ERDF to increase the scale and reach of national and existing regional

initiatives (eg. KTPs, innovation vouchers).

4.5 A notable feature of the delivery approach adopted in the West Midlands is the evidence of maturity in the way that HEIs have been prepared to collaborate, taking a regional lead on some complex, larger scale projects with multiple partners involved or enabling individual HEIs to drive forward projects in specific, specialist research fields.

Portfolios

4.6 Priority 1 is focused on four portfolios which cover a range of innovative activity from efforts to better engage SMEs with the region's research base through to capital investment in HEI led demonstrator research facilities. The focus of each Portfolio and the allocation of resources to them are summarised in Table 4-1 below.

Table 4-1: Portfolios, Indicative Actions and Allocations

Portfolio	Indicative Actions	Total Allocation (£m)*	% of Priority 1
Stimulating business demand	• Voucher scheme to link knowledge base to SMEs • Specialist brokerage for SMEs to knowledge base	£30m	23%
Stimulating knowledge transfer	• Support for SMEs to access national schemes (eg. KTP) • Addressing gaps in support schemes for knowledge transfer • Support to develop public-private collaboration to access research funds (eg. EU FP 7)	£39m	30%
Retaining and maximising value of skilled people	• Extension of graduate placement schemes • Increased support for graduate entrepreneurship schemes	£15m	12%
Building demonstrators	• Support for establishment of research led technology demonstrators	£45m	35%
*based on €1=£0.89			

4.7 The decision about the proportion of funding to be allocated to each Portfolio was driven by an understanding of the potential demand for knowledge transfer and HEI capital investments, the strategic priorities determined by the ITC and AWM and the availability of match funding sources (Single Programme, TSB). Those involved in designing and drafting P1, and in agreeing the Programme with the Commission, had been centrally involved in public and commercial innovation strategy in the West Midlands for several years. This appears to have ensured a broad consensus about the focus of P1, and a strong degree of continuity in building on a pipeline of activity already under development as the ERDF Programme commenced.

Outputs and Results Targets

4.8 The framework of outputs and results targets for Priority 1 was negotiated by the Programme with the European Commission following work by Task and Finish groups in the region. Four main principles underpinned the P1 output and results framework:

- Targets reflected the proportion of funding allocation to each broad category of activity (largely in line with the Portfolio). For Portfolios 1 and 2, a well established set of value for money benchmarks existed for schemes such as innovation vouchers projects and Knowledge Transfer Partnerships, and these informed the setting of targets for the Priority. Where there was already some certainty about the scale of activity the West Midlands would seek to achieve (eg. with Innovation Vouchers project), this also drove the target set by the Programme.

- Targets were based on the overall funding package that P1 would secure, so ERDF plus public and private sector match funding.

- The Programme was clear in setting targets for Priority 1 so that the unit costs of outputs would be comparatively high, particularly for demonstrator activities in Portfolio 4. The view was that significant economic benefits would emerge in the longer term (ie potentially beyond the lifetime of the Programme) from investing ERDF resources in this area.

- Agreeing targets that were assessed as realistic and achievable. Past experience of ERDF in the West Midlands and other English regions suggested that excessively ambitious targets created pressures to secure outputs and results that compromised a Programme's focus on high quality projects.

4.9 The targets for P1 identified in the Operational Programme are set out in Table 4-2 below.

Table 4-2: Priority 1 Outputs and Results Targets

	Indicator	Total	% of overall Programme target
Outputs	Businesses assisted to improve performance	8,018	36%
	New collaborations	3,190	97%
Results	Gross jobs created	1,550	15%
	Businesses created/attracted	115	5%
	Graduates placed in SMEs	1,000	100%
	CO2 reduction	*	-

Source: Not specified in Operational Programme document

4.10 The key points about the outputs and results targets for P1 are:

- Portfolio 1 was earmarked to deliver two thirds of the new collaborations with the knowledge base target, implying that Portfolios 2 and 4 would focus on working more selectively with smaller groups of businesses.

- The businesses created/attracted target for P1 was set at only 5% of the total Programme target for this indicator. It is not untypical in ERDF programmes for HEIs to be cautious about commitments to new business creation targets given the long lead in times involved in commercialising concepts for new products or services. It may also reflect the Programme's focus on improving the innovation performance of existing businesses in the region.

- Some consideration was given in developing the Programme as to whether progress on non-core indicators should be measured. Potential indicators included the value of sales generated by new products, processes and services. However, this is not systematically being reported by projects and recorded by the Programme. There is a case for the Programme to consider whether it is fully reflecting the results and impacts of P1 investments in the region's innovation activity. For example, data on the number of patents applied for or license agreements concluded might present a more rounded picture of the role that ERDF investment is playing. This must be weighed up against the costs of obtaining and reporting this evidence, and the value of having additional indicators to report.

- A related point about the impacts that demonstrator projects will generate. They are likely to be the key factor in the overall economic impact of Priority 1 investments, but there is no straightforward way to capture what are expected to be returns from these investments which occur beyond the lifetime of the Programme. There is also no mechanism to claim outputs and results beyond the end of the Programme.

Priority 1 Progress

Expenditure and Commitments

Table 4-3: Investment Summary (to end May 2011)

	Number of Projects	Total Value (£m)
Priority Allocation	-	£124.7
Completed projects	0	-
Committed to date	23	£69.0
Projects at full application	11	£19.1
Projects in pipeline	9	£0.8

Source: Programme monitoring data
Committed = projects currently delivering, projects approved at full and awaiting contract
Full application = projects endorsed at outline, projects working on full application and projects in appraisal. Pipeline – Projects at all stages before outline endorsement

4.11 Investment progress in Priority 1 has been reasonably strong, with 53% of resources committed at the end of May 2011 and a further 15% of the allocated resources at full application or pipeline stage. The largest project by ERDF value is the Knowledge Transfer Partnerships initiative (£11.7 million) coordinated by Wolverhampton University. In all, six projects currently in delivery have ERDF values exceeding £5 million, reflecting P1's focus on capital investments to support developments within the region's HEIs.

4.12 Defrayed expenditure stood at £27.3 million by the end of May 2011, representing around 22% of the P1 allocation. The investment picture varies considerably across the 4 Portfolios:

- Portfolio 1 stood at only 4% defrayed or committed.

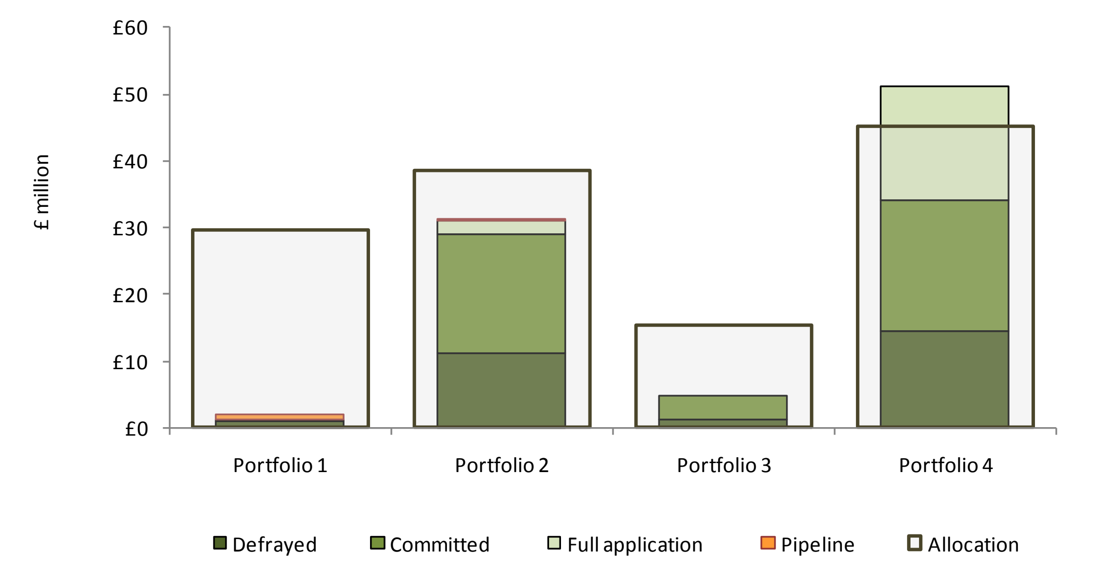
- Portfolios 2 stood at around 75% committed or defrayed. With a further £2.3 million (6%) at full application or pipeline stage, there is comparatively little headroom remaining.

- Portfolio 3 had reached 30% committed or defrayed.

- In Portfolio 4, defrayed and committed expenditure stood at 75%, with a further £17 million (38% of allocation) at full application stage. Assuming this converts to committed ERDF investment, Portfolio 4 would be over-committed by 13%.

4.13 The detailed picture of expenditure and commitments by Portfolio is summarised in Figure 4-1 below.

Figure 4-1: Expenditure and commitments by portfolio (May, 2011)



Source: Programme monitoring data
Committed = projects currently delivering, projects approved at full and awaiting contract.
Full application = projects endorsed at outline, projects working on full application and projects in appraisal. Pipeline – Projects at all stages before outline endorsement

Contracting Rate

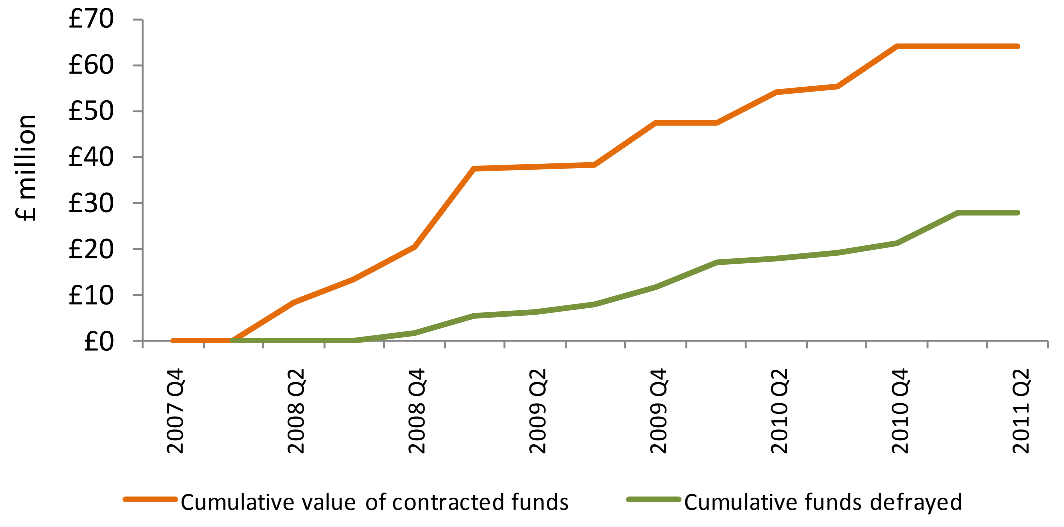
4.14 There have been 12 bidding rounds involving Priority 1 between 2008 and 2011, including the most recent which concluded in June 2011 (P1 and Priority 2 open call). The key points are:

- A majority of bidding rounds (nine) were via the open call approach. Two of these calls were for all Portfolios. A further five were confined to a single Portfolio, while one was aimed specifically at attracting bids for energy efficiency projects in social housing (Portfolio 4). A total of 58 applications were generated by these open calls prior to June 2011, with a further 18 emerging from the most recently concluded round.

- A small number (three) of limited calls, including a round to make provision for those projects which could not proceed as a consequence of public sector budget reductions, that might be able to proceed if they were part funded by ERDF.

4.15 The use of regular bidding rounds for P1 is reflected in progress on contracting, which has been steady since the Programme gathered momentum during 2008. It points to both a structured approach to the process of seeking to invest ERDF and sustained interest on the part of potential applicants. This contrasts with other English regions where securing a substantial flow of projects has proved more difficult with the exception of national Innovation Vouchers and KTP projects.

Figure 4-2: Contracting overview (to May 2011)



Source: Programme monitoring data
Note: Based on contracted projects only

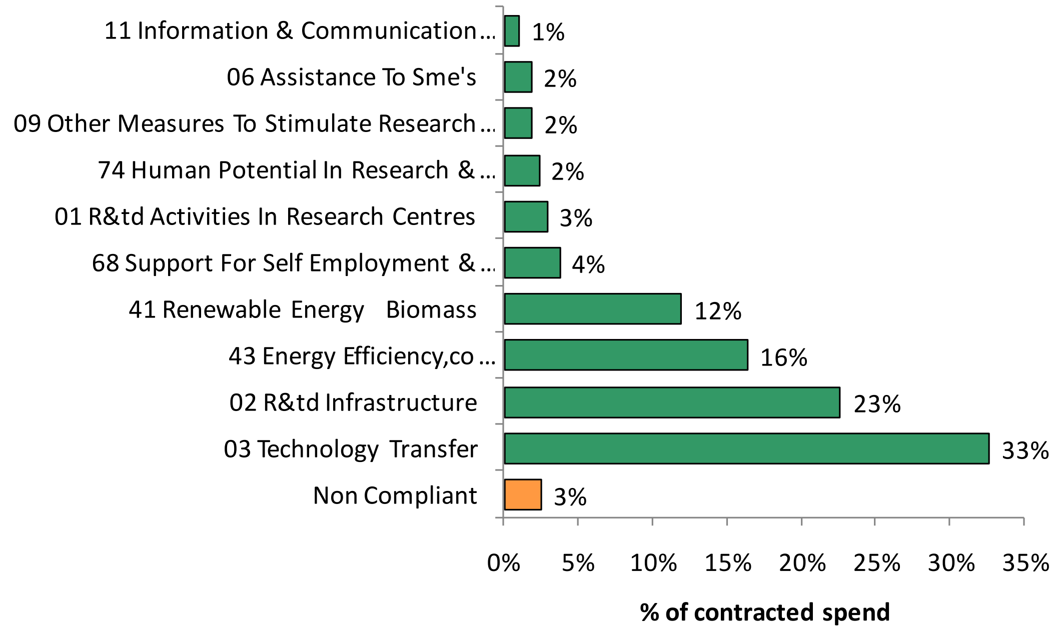
4.16 A significant number of new applications have come forward through the latest open call for P1 and Priority 2 projects which concluded in June 2011. A total of 18 potential projects have emerged, with an indicative ERDF value of £22.7 million. This data suggests that P1 should be expected to significantly strengthen its pipeline as projects move into full application, although it is not yet clear what proportion could successfully secure ERDF. The key features of this new pipeline data are:

- 14 out of 18 projects originate from HEIs with the remaining 4 from local authorities.
- 53% of indicative match funding would come from public sector sources, with more than half from HEIs (chiefly via HEIF).
- 47% of indicative match funding comes from private sector, with 53% of this total from commercial partners involved in projects and 59% from SME contributions to the cost of support.

Lisbon Compliance

4.17 As Figure 4-4 indicates, the Programme has committed the overwhelming majority (97%) of investment to date to Lisbon compliant activity. Technology transfer and R&D investments are the two main Lisbon categories in which P1 has invested, principally in Portfolios 2 and 4.

Figure 4-3: Overview of Lisbon compliant activities (for committed funds at May, 2011)

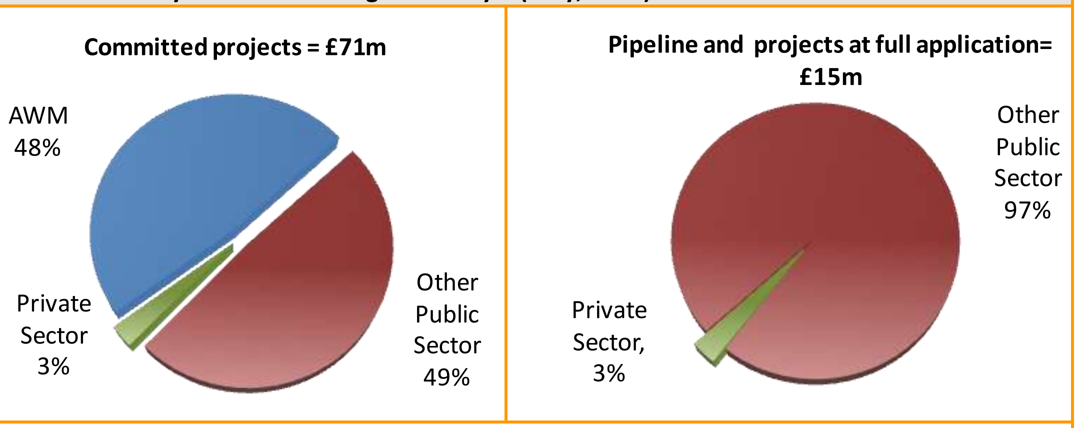


Source: Programme monitoring data

Match Funding

4.18 Data on match funding to date for Priority 1 point to strong reliance on a combination of Single Programme funding (via AWM), HEI funds and national public sources which include the TSB. A summary of the position at May 2011 is provided in Figure 4-4 below.

Figure 4-4: Summary of match funding in Priority 1 (May, 2011)



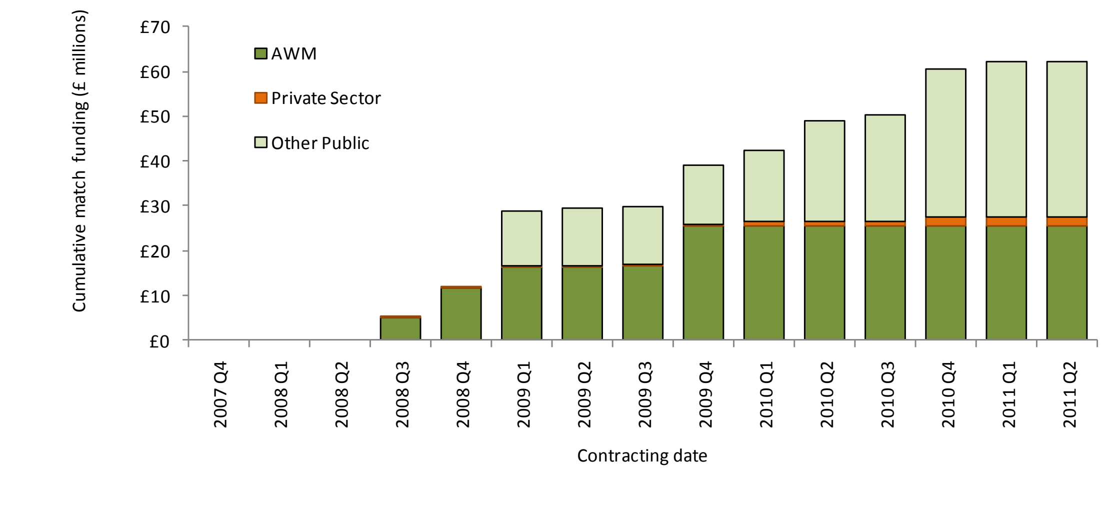
Source: Programme monitoring data

Committed = projects currently delivering, projects approved at full and awaiting contract.

Full application = projects endorsed at outline, projects working on full application and projects in appraisal.

Pipeline – Projects at all stages before outline endorsement

Figure 4-5: Change in profile of match funding over time (2007 – 2011)



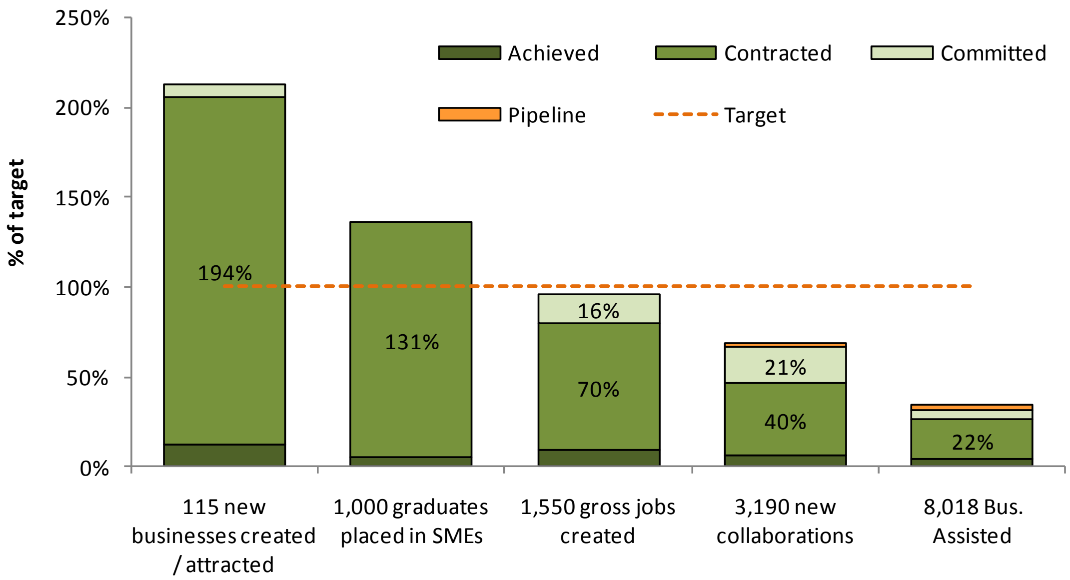
Source: Programme monitoring data

4.19 In a more difficult public funding environment from 2010 onwards, the balance of public and private sector funding, as well as the relative importance of individual public sector funding sources, would be expected to change. More substantial private sector match funding is to be expected given the Programme's decision to include private sector match in its match funding totals from 2009 onwards, and the potential for both large companies and SMEs to invest alongside public sector partners.

Outputs and Results Progress

4.20 The reported achievements of P1 targets to date has been limited, although the committed projects would see the Programme meet or exceed three of the five targets, while good progress is being made in contracting for a fourth (new collaborations with the knowledge base). The Programme has had limited success with the businesses assisted to improve performance target, with only 26% contracted for or achieved. This reflects the low level of investment in Portfolios 1 and 3 to date, and the challenges of working with SME base outside Innovation Vouchers and KTP projects.

Figure 4-6: Overview of progress on headline indicator targets (May, 2011)



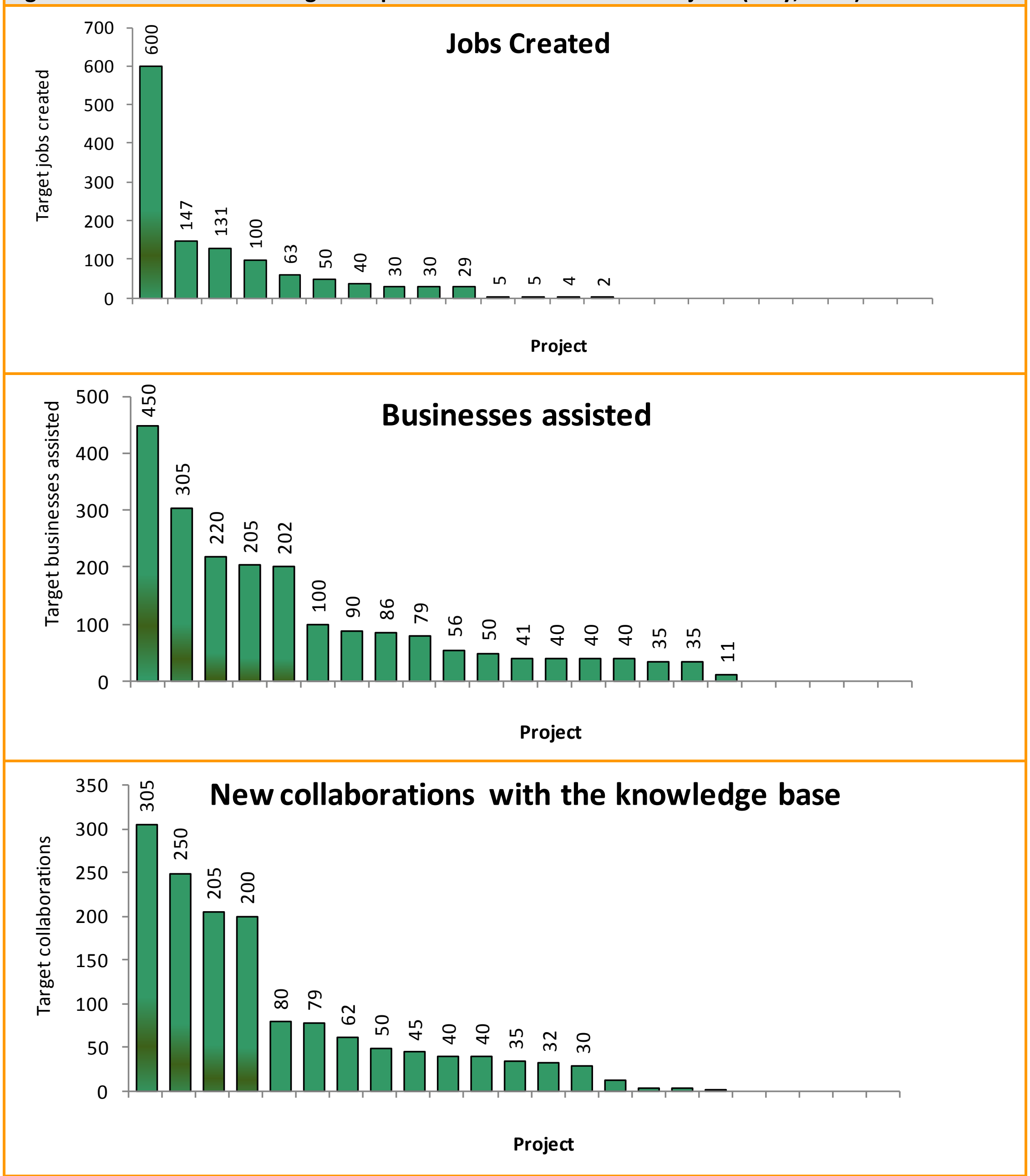
Source: Programme monitoring data and Operational Programme
Committed - projects currently delivering / approved at full and awaiting contract.
Full application – projects endorsed at outline and working on full application
Pipeline – Projects at all stages before outline endorsement

4.21 The Programme needs to better understand its position in terms of achieved outputs and results in Priority 1, since it is proving challenging to deliver against some key targets.

- For example, of the nine projects which contracted with the Programme in 2008 or 2009 to achieve jobs created targets, the data suggest that only four have reported achievements against this indicator.

- For the businesses created target, five projects contracted with the Programme in 2008 and 2009 to deliver against this target. By May 2011, achievement against this target was only recorded for two of these projects, amounting to 7% of the contracted for target.

Figure 4-7: Distribution of Target Outputs and Results Across P1 Projects (May, 2011)



Source: Programme monitoring data

4.22 Priority 1 is heavily dependent on a small number of projects to deliver its outputs and results targets. This is a familiar feature of innovation and enterprise development priorities within ERDF programmes, where larger scale, regional projects frequently account for the 70% plus of contracted for outputs and results. For Priority 1 projects, the key features of targets already contracted for or in delivery are:

- For the businesses assisted to improve performance target, six projects account for 71% of contracted for outputs, with the University of Wolverhampton's recently launched Innovation First project to account for a further 450 (not shown in the chart above).

- The newly launched Graduate Placement scheme operated by Aston University's Graduate Advantage initiative accounts for 87% of the graduates placed into SMEs target. This target is exclusively delivered by Portfolio 3, and its achievement is clearly heavily dependent on a small number of projects fully delivering against their contracts.

- The SPEED project (graduate entrepreneurship) accounts for 600 (40%) of the jobs created target. This project is being delivered in particularly tough economic conditions in which to launch and grow new businesses.

- Four projects account for 65% of the contracted target for new collaborations with the knowledge base, including Innovation Vouchers, Innovation First, Centre of Refurbishment Excellence and Knowledge Transfer Partnership projects. Projects report good levels of demand for support, and sustaining this will be critical to meeting this target.

Assessment of Priority 1 Investments

Key Delivery Factors

Clear links to existing strategies and innovation development activities...

4.23 Delivery of P1 has benefited from an investment strategy which made clear and strong linkages to established strategies and innovation development activity in the region. The Programme has been able to build on both existing initiatives (eg. Birmingham Science City, High Tech Corridors, Clusters) and good quality pilot projects (eg. demonstrators). The HEIs, AWM and other partners were able to move early in the Programme and make significant investments. It also enabled the Programme to take advantage of national match funding opportunities (eg. KTPs, HEFCE).

...allied to a high level of engagement and commitment from HEIs

4.24 The delivery of P1 has been strongly influenced by the central involvement of the region's HEIs both strategically and at project level during the course of the Programme. Of the projects either contracted for or in delivery at the end of May 2011, HEIs were the lead applicant in 18 (c. 80%). The number and scale of collaborative projects involving a number of HEIs is also a notable feature of P1, suggesting a degree of maturity in the way that HEIs have worked together with the Programme and been prepared to take on coordinating responsibilities for projects (eg. KTPs) as well as accountable body status.

Strong demand for investment in Portfolio 2 (Knowledge Transfer) driven by collaborative activity...

4.25 A constructive relationship between AWM, HEIs, cluster organisations and the private sector has enabled the Programme to make good progress in Portfolio 2. Alongside the large scale KTP project, other projects in delivery feature collaborative arrangements between HEIs or specialist research centres, large companies and cluster bodies. A commitment to translating the cluster plans into ERDF investments is also a feature of the delivery of Portfolio 2.

...while strong demand for Portfolio 4 (Demonstrator) investment driven by HEI specialist research strengths and Science City priorities

4.26 Good performance in terms of investment commitments in Portfolio 4 reflects sustained demand from the region's HEIs for capital investment with some supporting revenue funding for the development of specialist research facilities to bridge academic research and commercial development. The Programme benefited from working with applicants that already had projects under development or pilots in place, which were also linked to the established priorities identified in the West Midlands Economic Strategy, the region's Innovation Strategy and by Birmingham Science City. Both the Innovation Strategy and the Operational Programme were clear about the need for demonstrators to showcase to businesses new technologies, processes and research, with the emphasis on stimulating demand from industry and seeking commercial benefit from this activity through new products or services.

Challenge in Portfolio 4 is to capture the impacts of demonstrator investments

4.27 The key challenge for the Programme is to capture the economic impacts of demonstrator investments which are expected to accrue over the longer term rather than be immediately measurable. While output and results indicators (businesses assisted to improve performance, new collaborations with the knowledge base) will provide a picture of how effectively demonstrators engage with businesses, their most important effects will be in the extent to which businesses are able to develop new products, enter new markets, increase sales or improve productivity.

Small number of investments in Portfolio 1 (Business Demand for Innovation) reflects lower levels of demand and overlap with Portfolio 2...

4.28 A combination of factors explain delivery progress in Portfolio 1 which has seen a small number of investments to date and which has a limited pipeline. A lack of clear distinction in the Operational Programme between the indicative activities for Portfolio 1 and 2 has played some part in this, with applicants tending to favour knowledge transfer activity (Portfolio 2) as a means to work with SMEs rather than the more general approach to stimulating demand for innovation support (Portfolio 1). Perceptions of a lack of demand for general innovation support from SMEs have also been cited as a factor. With a large scale, region wide Innovation Vouchers project put in place at an early stage in the Programme's delivery, there is also a question about whether there was a requirement for additional provision of this type given the need to avoid duplication and the pepper potting of innovation support initiatives.

...and similar challenges in securing ERDF investments in Portfolio 3 (Retaining and Maximising the Value of Skilled People) projects

4.29 Progress in Portfolio 3 has been shaped by similar factors to those which have driven Portfolio 1. The Programme has invested in a large scale, multi partner project (SPEED WM) which provided support for graduate entrepreneurship across the West Midlands. There may have been insufficient space or need for additional provision of this type, with a risk of duplication in running similar initiatives. Decisions over match funding have also had some bearing on the number of Portfolio 3 projects. It is understood that potentially viable graduate placement and enterprise projects within the region were being developed with Single Programme and Working Neighbourhoods Fund (WNF) resources as match. No ERDF funding requirement was identified for these projects, although the loss of WNF match meant that these projects did not enter delivery.

Dependence on relatively small number of larger projects

4.30 At this point in the Programme, the achievement of targets for Priority 1 is heavily dependent on a small number of larger projects, particularly those relating to Portfolios 1 and 3 (eg. graduate placement target). This is not an unfamiliar position for ERDF Programmes. However, any risks stemming from one or more of these larger projects finding difficulties in achieving targets would be mitigated by ensuring that further investments are made in this type of activity during the remainder of the Programme.

Assessment of P1 Investment Fit and Pipeline

Table 4-4: Summary Assessment of Priority Investments and Pipeline

Portfolio	Investment Fit and Gaps	Strength of Pipeline
Stimulating business demand	• Strong fit with P1 objectives, since innovation vouchers projects provide well established route to developing better links between research base and SMEs • Small number of projects reflect tightly defined focus of Portfolio (Innovation Vouchers schemes) and limited demand for ERDF to revenue fund projects linking knowledge base with SMEs. Perception of lack of demand for innovation support and work with research base from SMEs, so may also be limited scope for multiple innovation vouchers/network type projects which represent real additionality from ERDF investment • Small contribution in terms of jobs created to date but focus of Portfolio is on stimulating innovative activity which would in time lead to new products and processes, increased market share, more competitive SMEs	• Two projects in pipeline - New Innovation Vouchers project (Aston University led) and Innovation Connect (Staffordshire University). Also Innovation Networks project emerging from open call. These will not substantially change the commitment position in Portfolio 1, accounting for only around 10% of remaining headroom. • Further new pipeline projects are likely to be limited for Portfolio 1 given the loss of Single Programme match, funding the scale and extent of coverage provided by existing or pipeline projects and the overlap with Portfolio 2. However, results of open call suggest some local authority led innovation support initiatives will look to secure ERDF.
Stimulating Knowledge Transfer	• Good mix of projects, with most led by HEIs in collaboration but a small number emanating from WM cluster organisations • Appears to be strong focus on advanced technologies and priority clusters • Some new jobs contracted, (particularly from KTP project) but economic benefits expected further downstream	• Pipeline strong and may get stronger with completion of open call in June 2011 as HEI applicants seek to invest new HEIF resources and work with private sector partners • Results of open call suggest that focus will continue to be technology intensive cluster projects in key sectors • SME match through contributions to innovation support and private sector involvement more broadly appear to be increasingly important to quality and volume of pipeline, and WMOP well set to work with SME match
Retaining and Maximising Value of Skilled People	• Limited number of live projects to date reflect difficulties in developing graduate entrepreneurship projects. Loss of WNF seen as factor for provision of graduate placements perceived overlap with ESF skills activities cited as factors • However, large scale and comprehensive SPEED project contracted to deliver significant numbers of jobs and businesses created (600 & 172), with eight HEIs already involved and may be limited space for other graduate entrepreneurship projects to emerge	• Pipeline appears limited although some projects are in the pipeline, including Aston University led graduate placement service for WM HEIs • Initial results of open call (June 2011) suggest pipeline is likely to increase in size with at least £3.2 million of projects under this Portfolio, accounting for around 30% of the remaining headroom
Building Demonstrators	• Success story for P1 in terms of expenditure with substantial project activity across HEIs and strong commercial connections apparent	• Continued demand for demonstrator funding expected as HEIs seek to boost capital investment in facilities

	• Economic impacts assumed to be generated over longer term as R&D and innovation become commercialised so outputs and results not proportionate to amounts of ERDF investment. However, current projects in delivery or committed have target of 1,300 business assists and 450 jobs created, distributed across 10 projects.	• Low carbon technologies in social housing prominent in pipeline, but will need to be SME focused. • Pipeline set to expand with response to open call, with robust demand given new HEIF funding round and continued appetite for capital investment by universities. The potential over-commitment of resources will become an increasingly critical challenge for Portfolio 4.

Conclusions

4.31 The overall assessment of Priority 1 points to good progress having been made in committing ERDF investment to date. The portfolio of investments shows a strong fit with the objectives and indicative activities identified in the Operational Programme, and there are clear connections to the region's strategies on innovation, research and development and commercialisation. The evaluation has drawn the following specific conclusions about progress in Priority 1 to date and its future focus:

- The disparity between the volume and value of investments the Programme has made in Portfolios 1 and 3 and Portfolios 2 and 4. The evaluation has pointed to a range of factors which explain this pattern:

  - Tight definition of the types of activity sought in Portfolio 1 (vouchers and limited continuation of Innovation Advisory Services)

  - Overlap between Portfolio 1 and 2 indicative activities, with Portfolio 2 offering scope for investments which might also have been made in Portfolio 1

  - Demand from applicants, with higher levels of demand for ERDF support from HEIs and other applicants for knowledge transfer and demonstrator activities. This raises a question about whether the Programme could or should have done more to stimulate demand for investment in Portfolios 1 and 3.

  - Availability of match funding, including funds relating to national initiatives (eg. KTPs).

  However, the evaluation does not suggest that there is any fundamental weakness in the Priority 1 investment strategy. Evidence on the pipeline of projects in Priority 1 suggests that the Programme has the potential to secure further investments in Portfolio 1 and 3 type activities, although demand is likely to remain strong for Portfolio 4 investments.

- The strong portfolio of HEI led investments in demonstrators and other research intensive activities the Programme has assembled in Priority 1. Universities are the dominant applicant and lead delivery organisation in P1 and the signs are that they will continue to occupy this position through much of the remainder of the Programme. There is a strong likelihood that this will generate more demand for Portfolio 2 and particularly Portfolio 4 type investments.

- The strengths of the partnership that has developed between HEIs, the Programme, AWM and other public/private organisations centrally involved in innovation in the region. This has helped to ensure a strong fit between the Programme and well-established priorities for investment in research and development in the West Midlands, as well as the commercialisation agenda. It has also helped to encourage a coordinated approach to investment which has in turn helped to secure larger scale collaborative projects, including a number operating across the region as a whole.

- The lack of evidence of strong strategic linkages between Priorities 1 and 2 having influenced the delivery of projects. For example, given the range of support available to businesses through Priority 2, including access to finance, there is a case for considering how these instruments might be used to support spin outs and the commercialisation of R&D funded through P1.

4.32 Overall, the evaluation concludes that the Priority 1 investment strategy is sound and will continue to provide a good platform for ERDF investment in innovation and R&D in the West Midlands.

Recommendations

Merge Portfolios 1 and 2 and adjust the financial allocations

4.33 The Programme should consider merging Portfolios 1 and 2. There is insufficient clear blue water in the Operational Programme between activity to stimulate demand for innovation support and knowledge, and activity which actually helps to embed it into SMEs. The evaluation also suggests that the indicative activities in Portfolio 1 are too narrowly defined and restrictive, and that this has limited the number of applications that have come forward. In its internal review carried out in December 2010, the Programme had already considered the potential need to reduce the overall allocation to Portfolio 1 to 10%. If this is applied now, it would give the merged Portfolios 1 and 2 an allocation of around 40% of Priority 1 resources. This could be reduced further to 35% without significantly compromising the ability of the Programme to achieve its objectives in this area. This change would also help to ensure that P1 continues to offer opportunities for ERDF to support work with larger numbers of SMEs and engage in knowledge transfer activity through the remainder of the Programme.

Reallocate some Priority 1 resources to Portfolio 4

4.34 As the Programme stands, the pipeline of projects in Portfolio 4, including those resulting from the most recent open call, could result in the over-committal of ERDF investment against the allocation for the Portfolio. In addition, changes in the sterling:euro exchange rate have the potential to reduce the actual headroom left available. By revising the combined Portfolios 1 and 2 to 40% of P1 resources and Portfolio 3 to 10% (from 12%) could enable the Programme to allocate 50% to Portfolio 4. This would have the effect of creating a little additional headroom, more than covering the pipeline prior to the results of the open call and probably providing resources to cover some new investments post the open call. This change in allocations would help the Programme to capture the new opportunities for HEIs to invest that have resulted from the HEIF allocations for the period from 2011-15. It would also reflect the continued, apparently strong demand that partners report for investment in this type of activity. This recommendation should also be subject to the implementation of recommendation 3 below.

3. Attach additional weight to future demonstrator project applications which commit to the delivery of new jobs and business creation

4.35 A decision about whether to adjust the allocation of resources within Priority 1 to make available additional ERDF funds for Portfolio 4 needs to take into account the benefits/drawbacks of further investment in demonstrator facilities. While there is potential for them to generate long term economic impacts both in the form of internationally significant concentrations of research and development activity and new commercial activity, Portfolio 4 investments deliver relatively small contributions in the form of jobs/businesses created for the scale of ERDF investment involved. Although the Programme has committed funding to projects which should meet the key output and results targets for P1, there is a case for ensuring that higher priority is attached to jobs created/businesses created in decisions about the funding of future demonstrator projects. This could assist the Programme in making decisions about which projects to invest in given the limited remaining resources available for Portfolio 4. However, the evaluation also recognises the continued need strike a balance between projects which enhance the West Midlands specialist research strengths in the long term, those designed to stimulate interest from and engage with the SME base and those which can deliver significant outputs and results to the Programme.

4. Issue targeted calls for projects which build on existing investments in Priority 1, particularly specific knowledge transfer and demonstrator projects

4.36 With a reasonable number of projects now in delivery and limited headroom remaining in Priority 1, there is a case for considering targeted calls for projects which aim to maximise the benefits of existing investments. There should be a focus on revenue investments which could include actions to widen engagement with SMEs or work with SMEs to commercially exploit their exposure to demonstrator technologies.

5. Capture additional indicators to measure the results and impacts of Priority 1 investments, particularly for demonstrator projects

4.37 The Programme should do more to capture the results of activities being delivered under P1 and their impacts. There are both ready-made indicators (eg. new licensing agreements, new patents approved) and other measures (eg. equity investments by international companies) which can tell a more comprehensive story about the benefits of investments in innovation activity. Although these are non-ERDF indicators, the current outputs and results framework for P1 is not geared up to reflect the long term nature of investments or the full range of outputs, results and impacts that are being delivered. In addition, the inclusion of other ERDF indicators (eg. employment floorspace indicator) would not only capture an important output of the demonstrators but also contribute to what is a challenging target across the Programme. More importantly, the Programme now needs to establish the impacts or likely impacts of the investments it has made to date in P1 and prepare the ground for establishing the impacts of future investments. This is particularly important for Portfolio 4 activity. It is reasonable to expect that these investments could strengthen the region's R&D base, improve its competitiveness in advanced technologies and improve business performance. However, while demonstrator projects are committing to the delivery of business assists, job and business creation, the scale of P1 investment which is being made in this type of activity means that understanding their economic impacts and where the highest impacts are being generated should be a key task for the Programme.

6. Strengthen the linkages between Priorities 1 and 2

4.38 The Programme would benefit from reviewing how effectively SMEs being supported by Priority 1 projects are guided towards projects which can provide support under Priority 2. The provision of a simple on-line resource which summarised the ERDF funded business support products available under Priority 2 could contribute to this. While the evaluation has heard evidence of these linkages being made in practice (eg. referrals to finance providers), it is not clear that this is being carried out systematically. With the closure of AWM and Business Link, there is a risk that some SMEs and entrepreneurs that engage through Priority 1 projects may find it find it more difficult to smoothly progress to further business support.

5. Review of Priority Two

Priority 2 Strategy and Objectives

5.1 Priority 2 sets out with a clear remit to improve regional economic performance by increasing levels of enterprise in the West Midlands. The priority was designed to support activities which would improve performance of existing businesses, embed the principles of innovation and sustainability and stimulate new business start ups.

5.2 The Priority strategy linked closely with the WMES from the outset and shared priorities with the Regional Enterprise Board and Finance Forum. The explicit cluster focus highlighted in the Priority 2 strategy was, in part, a legacy of the cluster focus of previous programmes but also a reflection of the close alignment between Priority 2 the WMES, which identified 10 priority business clusters for the region (see Table 5-1). It was envisaged that aside from activities to increase economic engagement amongst underrepresented groups (another key strategic theme for Priority 2), support in Priority 2 would be targeted towards businesses in these 10 clusters.

Table 5-1: Priority 2 target clusters	
Transport technologies	Tourism and leisure
Building technologies	ICT
Food and drink	Environmental technologies
High value added consumer products	Screen and new media
Business and professional services	Medical technologies

5.3 The Priority's design built on evidence of the region's under performance across a range of enterprise indicators, most notably the lagging economic output, productivity and start up rates in the West Midlands. The addition of a strand of activities focused on innovation into Priority 2 (as well as Priority 1) reflects the strategic importance of improving the innovation performance of the region's business base. The priority also sought to boost the region's contribution to national exports (which, at the time the OP was written, was the lowest of all English regions) and included scope for trade development and internationalisation investments. This is a common feature of enterprise priorities in ERDF programmes as it enables ERDF to be matched to national funding via UKTI.

5.4 Alongside business support projects, it was anticipated that financial instruments would take a high profile within the Priority, with the expectation that approximately 30% of Priority 2's allocation would be dedicated to finance measures. This became particularly important as the global financial crisis significantly reduced access to finance for SMEs through banks.

5.5 Priority 2 was allocated €135 million, representing £119.9 million at the current exchange rate (€1=£0.89), or 34% of the Programme's resources.

Delivery Approach

5.6 Strategic commissioning has played a key role in delivery to date. From the outset, it was anticipated that a core set of investments would be made to address central Priority objectives. Business Link was engaged early in the Programme as the key partner in the development and delivery of the core specialist advisory services for enterprise, environmental and innovation support.

5.7 It was envisaged that these core Business Link projects would provide high volume business support activity, squarely addressing key priorities and contributing the lion's share of priority outputs and results. Additional, more targeted and specialised support was delivered by:

- Using ERDF to increase the scale and reach of existing national initiatives (e.g. extending the core Manufacturing Advisory Service offer in the region, matching with UKTI programmes).
- Delivering sector specific support through the region's cluster organisations.

5.8 This approach had a close fit with AWM's model of business support, in which Business Link acted as the central gateway and broker to providers of core and specialist services. The close alignment of Priority 2's delivery helped ensure that ERDF could be used to enhance the scale and reach of Single Programme matched business support.

5.9 Targeted bidding rounds were also used to plug emergent gaps in the portfolio. For example an open call focused on the subsets that were light on projects was issued in September 2008 and a further call for projects to address the lower rates of enterprise amongst the region's BAME population was issued in March 2009.

Portfolios

5.10 The OP is very clear about the types of activity that can be funded within Priority 2. The three core portfolios of improving business performance, developing applied innovation activity / improving resource efficiency and developing a stronger entrepreneurial culture map well against the key priorities for the region and provide scope for a comprehensive array of projects to support the growth of existing businesses whilst enabling and encouraging the formation of new enterprises.

Table 5-2: Portfolios and Indicative Actions

Portfolio	Portfolio Subsets
1.Improving business performance	• In-depth tailored business support to improve competitiveness and performance • Trade development schemes to encourage diversification of export base • Transition fund to assist with modernisation and diversification
2. Developing applied innovation activity and improving resource efficiency	• Mentoring to help SMEs identify and take up opportunities for innovation • Resource efficiency focused support • Proof of Concept fund to support commercialisation of ideas emerging from collaboration with KBIs.
3. Developing a stronger entrepreneurial culture	• Support and venture capital for high growth start ups • Investment readiness support for groups facing barriers to creating sustainable businesses (e.g. women, BME groups) • Micro finance to support early stage start-ups in deprived areas

5.11 The clarity about the types of activity Priority 2 can support provided by the portfolio subsets is a positive feature of the strategy; they are sufficiently detailed to focus investment on the critical support priorities identified in the OP. In practice, Priority 2's progress has routinely been monitored against a broader set of themes, which cut across these portfolio sub sets and provide a more flexible framework against which to make investments.

5.12 In most cases, the themes read across to a single portfolio-subset (as shown in **Table 5-3**) but the Business Finance and Support for Under-represented Groups themes, both encompass a number of portfolio sub-sets.

Table 5-3: Overview of fit between Portfolio Subsets and Priority Themes

	Improving Business Performance			Developing Applied Innovation activity			Developing a Stronger Entrepreneurial Culture		
	In-depth tailored business support	Trade Development Schemes	Transition Fund	Mentoring – innovation	Resource efficiency	Proof of Concept Fund	Support and VC for high growth start-ups	Investment readiness for groups facing barriers	Micro-finance to support early stage start-ups
Business Link Core	✓								
Transformational Support		✓	✓						
Trade Development		✓							
Business Support and Innovation				✓					
Environmental Business Support					✓				
High Growth Start-up							✓		
Under-represented groups								✓	✓
Investment readiness								✓	
Business Finance			✓			✓	✓		✓

5.13 On a practical level, the use of two overlapping methods of grouping investments in Priority 2 makes monitoring spend and output progress against allocations difficult. The investment framework provides a picture of the level of commitment against each portfolio and sub set but the insight that this provides is limited as this is not a live document and does not provide information on targeted outputs or spend achieved to date. Up to date information on commitment, defrayed spend and outputs is accessed via programme monitoring data (which is based on project claims). Although more timely, it is difficult to relate this information to the allocations as projects are mapped against the nine themes, which do not read across to the portfolios or portfolio subsets.

Outputs and Results Targets

5.14 Priority 2 makes a critical contribution to overall Programme targets, which were purposely set at what was deemed to be an achievable level. The Priority seeks to contribute significantly to programme targets for jobs and businesses created or attracted, and account for the majority (60%) of the programme business assists target. Targets for employment results focus heavily on creating, rather than safeguarding employment, in line with the overall focus of the EU's Structural Funds. More than three quarters of gross jobs created and all gross jobs safeguarded by the programme are expected to be achieved via Priority 2.

Table 5-4: Overview of priority targets and allocations

	Indicator	Total (£m)	% of Priority Allocation
Spend	Improving business performance	£42	35%
	Developing applied innovation activity/improving resource efficiency	£22	18%
	Developing entrepreneurial activity	£56	47%
	Indicator	**Total**	**% of overall Programme**
Outputs	Businesses assisted	13,223	59%
	Social enterprises	67	100%
	New collaborations	98	3%
	Leverage	£10	53%
	People assisted to get a job	297	9%
	People assisted to start a business	297	100%
Results	Gross jobs created	7,969	76%
	Gross jobs safeguarded	1,125	100%
	Businesses created and attracted	2,380	95%

Source: Operational Programme

5.15 Almost half of the Priority 2's allocation has been dedicated to Portfolio 3 (Developing a stronger entrepreneurial culture). Although the scope of activities within this portfolio extends beyond start-up support, the target for c. 300 people assisted to start a business appears low in comparison to the allocation. This target also seems to be slightly out of line with the corresponding result indicator of businesses created / attracted to the region. This is set at a much higher level and is perhaps more in line with the level of investment in activities to support the development of a stronger enterprise culture.

Priority 2 Progress

Expenditure and Commitments

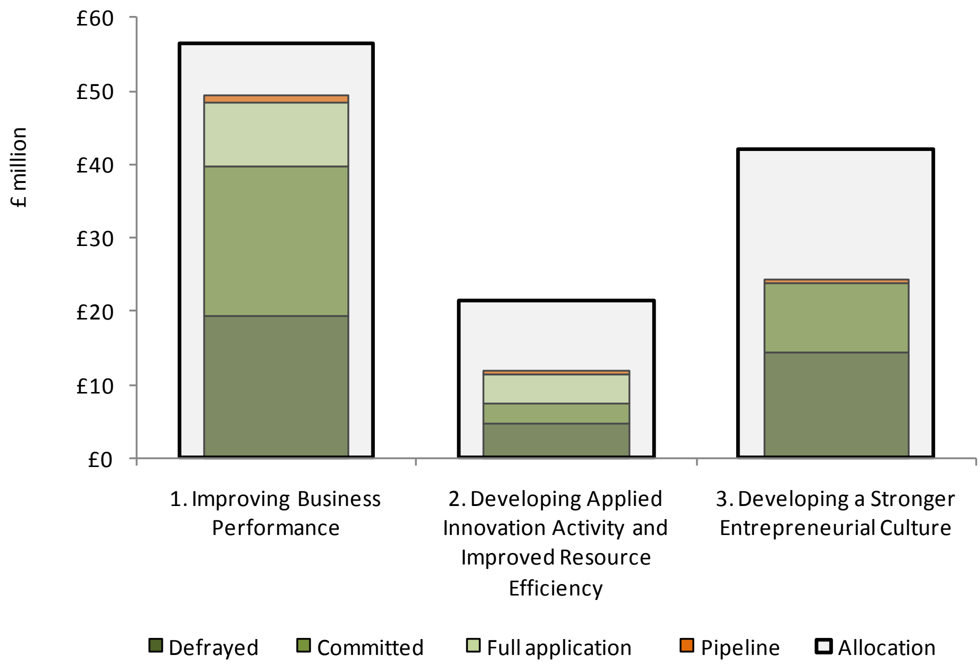
5.16 Progress has been strong to date; just under £39 million has been defrayed and a further £32 million is currently committed (i.e. in delivery or fully approved and awaiting contract). There is a reasonable bank of projects at the full application stage, which account for £12.8 million, although the value of pipeline projects (at outline or registration stage) is limited (under £2 million). Assuming that all projects currently in the pipeline reach delivery, there is £34m headroom remaining in the priority.

Table 5-5: Investment Summary (May, 2011)		
	Number	Value (£m)
Priority Allocation	-	£120
Completed projects	2	£3.5
Committed to date	45	£67.5 (56% of allocation)
Projects at full application	7	£12.9
Projects in pipeline	4	£1.9

Source: programme monitoring data
Committed = projects currently delivering, projects approved at full and awaiting contract.
Full application = projects endorsed at outline, projects working on full application and projects in appraisal.
Pipeline: Projects at all stages before outline endorsement

5.17 The headroom varies across the three portfolios and the challenge of investing currently uncommitted funds appears greatest for Portfolios 2 and 3, where headroom is in excess of 40% of the allocations. The comparatively weak pipeline in Portfolio 3 in particular, but also in Portfolio 2 underlines the need to attract project applications to these strands.

Figure 5-1: Expenditure and commitments by portfolio (May, 2011)



Source: Programme monitoring data

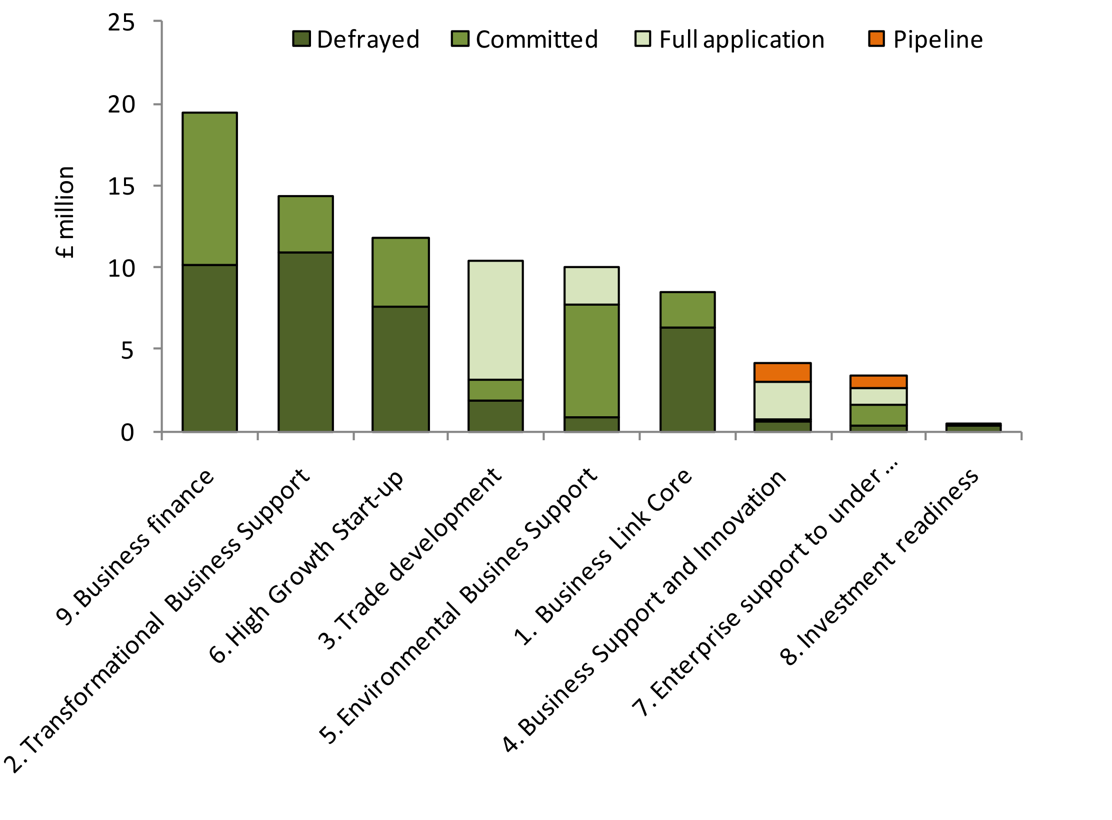
Committed = projects currently delivering, projects approved at full and awaiting contract.

Full application = projects endorsed at outline, projects working on full application and projects in appraisal. Pipeline – Projects at all stages before outline endorsement

5.18 Business Finance projects account for a significant proportion of the commitments made in Priority 2 to date. Figure 5-2 shows that projects under this broad theme account for almost a third of funds committed and defrayed, while updated evidence provided by the EPMT suggests that the figure actually stands at around 36% of all committed resources in Priority 2. This is a reflection of the prominence of access to finance in Priority 2's strategy and the inclusion of financial provision of some type within each portfolio. In total, 15 projects in this theme had been approved by May 2011, the largest being the £9m Grant for Business Investment fund, which started to deliver in late 2010. Other large, regional projects include the £7.5 million small business loan programme, the £7.5 million growth equity fund and the £4 million risk capital programme.

5.19 The Operational Programme set an indicative threshold of 30% for the proportion of Priority 2 resources that were expected to be invested in financial assistance. The current commitment of around 36% and evidence of further, strong demand for ERDF to support financial assistance projects in responses to the recently completed Priority 1 and 2 open call points to a need for the Programme to consider whether this threshold needs to be adjusted in negotiation with the European Commission. Access to finance continues to be challenging for SMEs. Recessionary conditions persist, and there remains a limited supply of finance being made available by the banking sector following the credit crunch. Under these conditions it is reasonable to anticipate that ERDF will continue to be seen as a source of funds to fill gaps in the supply of equity and loan finance to SMEs, together with micro-finance.

Figure 5-2: Expenditure and commitments by theme (May, 2011)



Source: Programme monitoring data

Committed = projects currently delivering, projects approved at full and awaiting contract.

Full application = projects endorsed at outline, projects working on full application and projects in appraisal. Pipeline – Projects at all stages before outline endorsement

5.20 The strong progress in Portfolio 1 (Improving Business Performance) is largely attributable to two core themes;

- Business Link Core. This theme relates to the central contract with business link to provide core brokerage (i.e. information, diagnostic and brokerage) and business start up services. This theme also includes the specialist Manufacturing brokerage service (i.e. MAS) which is delivered by the West Midlands Manufacturing Consortium.

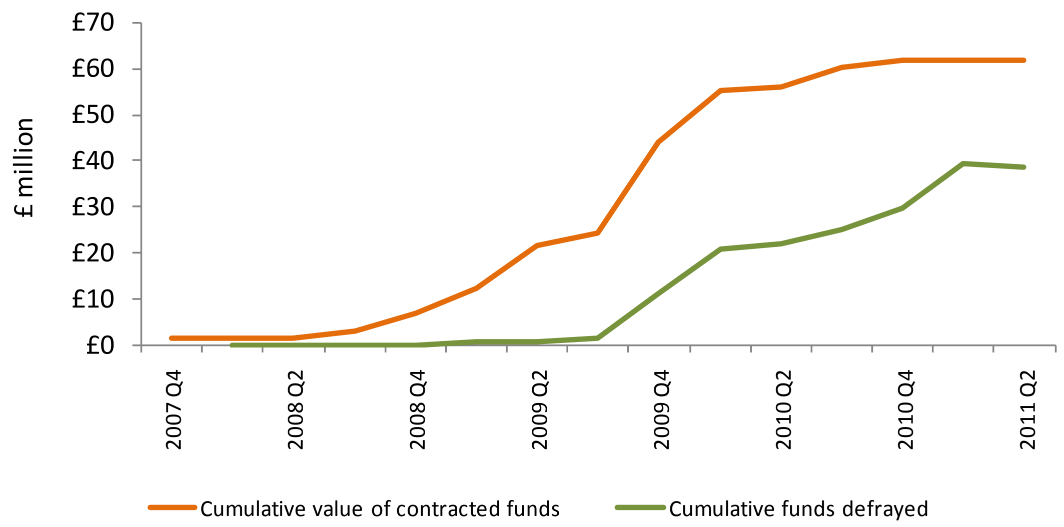
- Transformational Business Support. Includes projects aiming to assist businesses to improve their competitiveness or overall performance. More than £10m has been defrayed against this theme to date with investment in this theme being focused particularly on sector specific and supply chain related projects. Manufacturing related projects are particularly prominent in this theme which includes projects for the automotive, aerospace and food manufacture sectors.

5.21 The picture across the other themes is mixed. There have been some difficulties in securing projects (e.g. for under-represented groups) in the face of Single Programme match funding reductions, and there has been limited progress securing provision for investment readiness support. The reasons for the comparatively slow performance on these themes is explored later in this section.

Contracting Rate

5.22 The strong contracting rate from late 2008 onwards reflects early contracting for larger scale Business Link and access to finance projects, with the tail off during 2010 reflecting a loss of Single Programme match funding for new projects.

Figure 5-3: Contracting overview (May, 2011)



Source: Programme monitoring data
Note: Based on contracted projects only

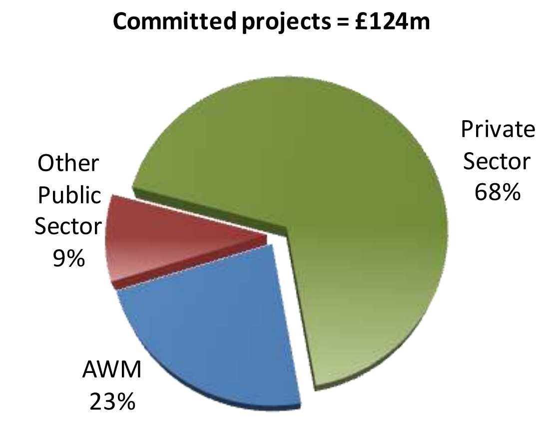
5.23 Priority 2 has been involved in six bidding rounds between 2008 and 2011, including the most recent which ended in June 2011. This call attracted 54 bids for Priority 2 (eight of which are A2F projects). The indicative ERDF requirements for projects responding to the latest open call sums to £77 million, more than three quarters of the total for both priorities, reflecting a strong continued demand for Priority 2 funds. On the face of it, this would more than cover the remaining headroom in the priority. However, a number of factors will determine how much of this headroom is absorbed in practice including:

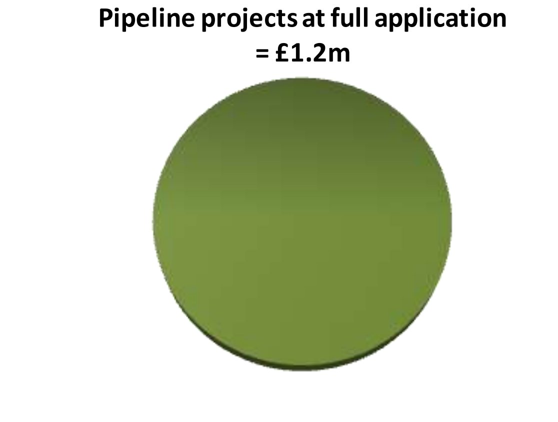
- Confirmation of match funding in a difficult climate for securing either public or private sector match.
- Decisions taken by the Programme about how best to respond to the larger number of smaller scale projects which appear to have been a feature of this call.
- Difficulties in dealing with direct application from private sector bidders. As it is not permissible for ERDF applicants to make a profit directly, some of these bids may not come to fruition and almost all will likely need reworking with the need for accountable body status one of the key questions to be addressed.

Match Funding

5.24 The match funding profile for the priority includes a strong private sector component (c 68% of all match in Priority 2), although this is driven by private sector match for financial instruments; the Grants for Business Investment and Equity fund projects account for 70% of the total private sector match. The decision to open the programme to private sector match in 2009 in response to cuts in public sector budgets clearly evident in the profile of match funding and is likely to be an increasingly important feature of Priority 2 investment.

Figure 5-4: Summary of match funding in Priority 2 (May, 2011)





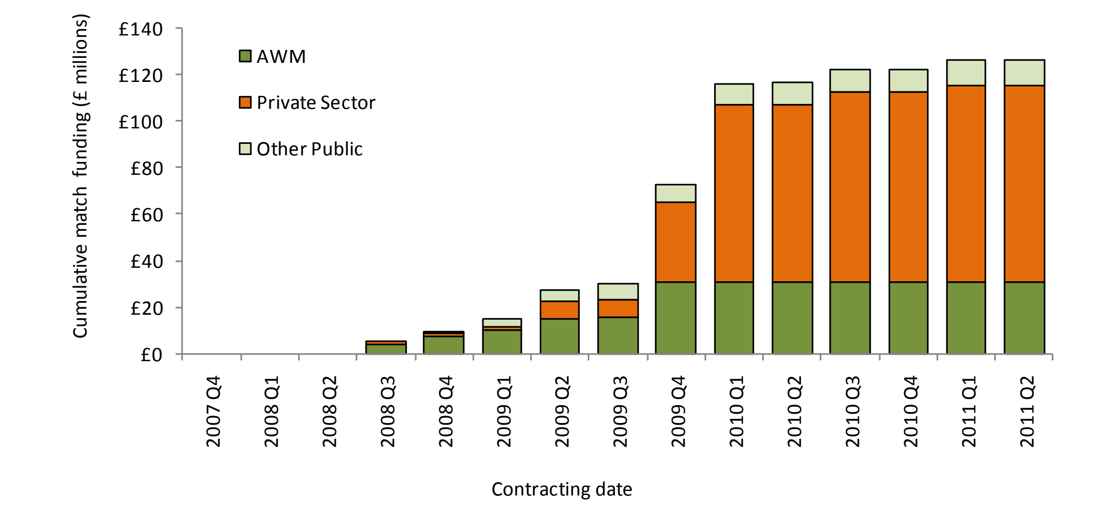
Source: Programme monitoring data

Committed = projects currently delivering, projects approved at full and awaiting contract.

Full application = projects endorsed at outline, projects working on full application and projects in appraisal. Pipeline: Projects at all stages before outline endorsement

5.25 The initial set of responses to the most recent open call have seen a notable change in the composition of match funding. Private sector match funding has become critical to non-access to finance projects in Priority 2, accounting for more than double the indicative level of public sector match identified by potential applicants. Local authorities have also emerged as a potentially more important source of match funding in the absence of Single Programme match (as well as delivery capacity). They account for 40% of the indicative public sector match for non A2F projects and 86% of public sector match for finance projects submitted in response to the open call.

Figure 5-5: Change in profile of match funding over time (2007 – 2011)



Source: Programme monitoring data

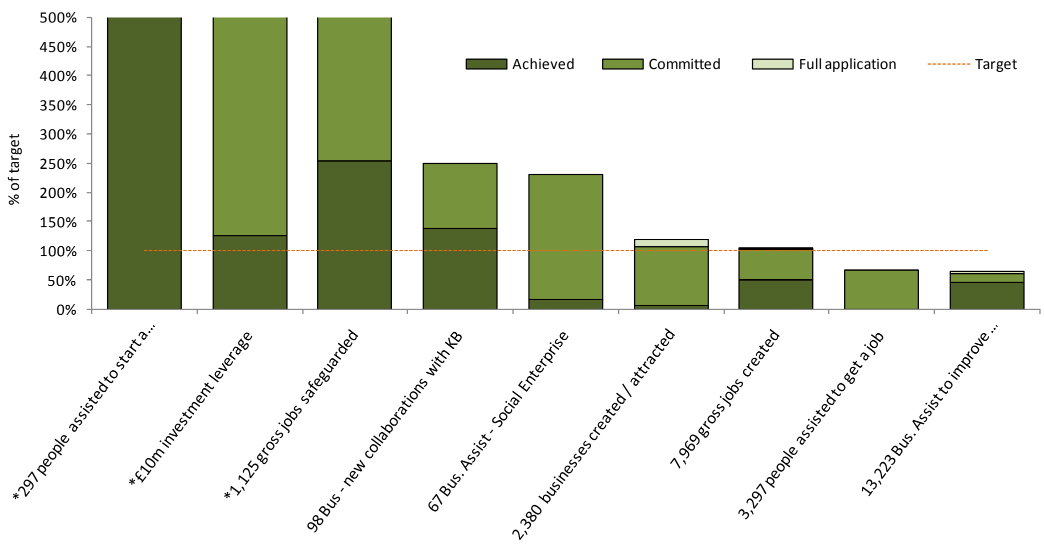
5.26 To date, higher and further education institutions have played a relatively small role in the mix of match funding for Priority 2 although their role might be set to increase with these organisations accounting for 20% of indicative public sector match funding sought in responses to the recent open call. This could be a very positive development for the priority, particularly with regard to forging closer links between the activities of Priority 1.

5.27 There may be opportunities to match with national funds such as the Regional Growth Fund (particularly for projects that will have a demonstrable impact on employment / business performance) although coordination of bids will present a real challenge for the programme and the emphasis on private sector led bids in RGF may result in ERDF applications falling foul of state aid regulations. Opportunities provided via the Business Growth Fund are more limited (largely due to the fund's focus on larger companies).

Outputs and Results

5.28 Performance against headline indicators has been mixed to date. Targets for a number of indicators have already been exceeded by some margin, which suggests that these targets could have been set at a more stretching level. The level of achievement against some indicators far outstrips the current level of commitment in the priority. There is currently c.40% of the allocation yet to be invested but priority targets for jobs safeguarded, people assisted to start a business, investment leverage and new collaborations with the knowledge base have already been exceeded by some margin.

Figure 5-6: Overview of progress on headline indicator targets (May, 2011)



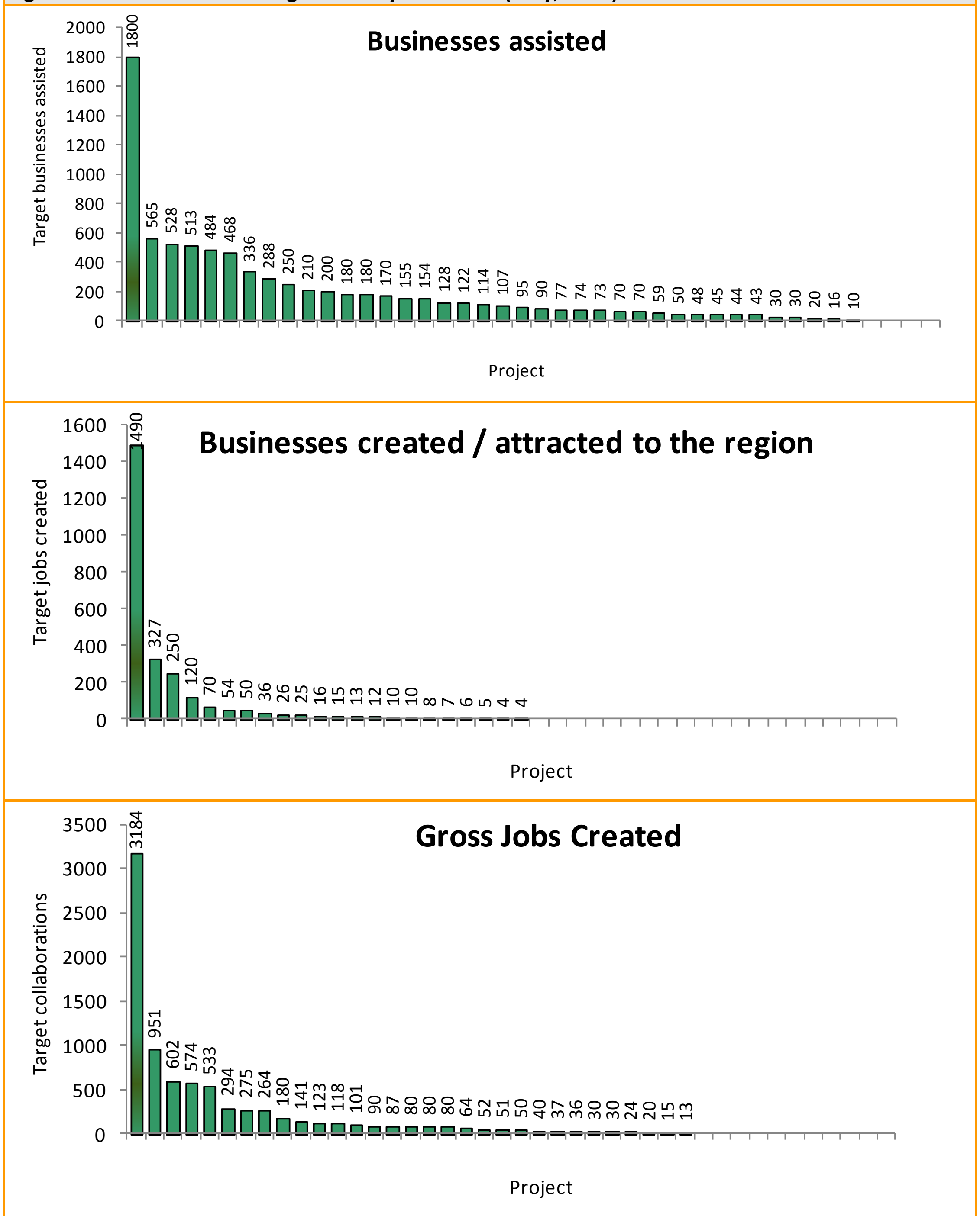
Source: Programme monitoring data and Operational Programme
Committed - projects currently delivering / approved at full and awaiting contract.
Full application – projects endorsed at outline and working on full application
Pipeline – Projects at all stages before outline endorsement
Note: Performance for indicators marked with * exceed the axis range. The % figure denoted in white text refers to the sum of the committed and full application outputs.

5.29 The critical output indicators for Priority 2 are:

- **Number of businesses assisted to improve performance**. This is the central measure of activity in portfolio 1. Progress here is broadly in line with the priority's current commitments and stage of delivery, with 60% of the priority target either achieved or committed. The headroom of 35% translates into 4,680 business assists, so securing projects that are going to deliver large numbers of business assists remains a critical priority.

- **People assisted to start a business**. This is a critical measure of activity given the focus on stimulating enterprise in portfolio 3, although the priority target is not particularly stretching. To date, 1,650 assists of this type have been delivered (more than five times the programme target).

Figure 5-7: Distribution of targets for key indicators (May, 2011)



Source: Programme monitoring data

5.30 Businesses created /attracted to the region, and jobs created and jobs safeguarded are the central result indicators for Priority 2. Progress against targets for these outputs has been strong overall, particularly for jobs safeguarded, where the priority target has already been more than doubled. Progress towards targets for businesses and jobs created is more in line with the level of commitment to date but these do not appear stretching, if projects contracted to date deliver their contracted outputs, these targets will be achieved in spite of the significant headroom that remains.

5.31 So far, business link contracts have been crucial in securing progress on the core outputs, delivering;

- **73% of business assists achieved to date**. Business Link contracts have delivered more than 4,500 assists to date. The majority have come from the core Business Link contract, but the Specialist Advisory Services (covering Innovation, IT and Environmental advice) have all made significant contributions to this total.

- **68% of people assisted to start a business.** The start-up support delivered through the core Business Link contract accounts for 1,120 of the 1,650 people assisted to start a business outputs claimed to date.

- **74% of jobs created to date**. Just under 2,900 gross jobs created claimed by the core Business Link contract.

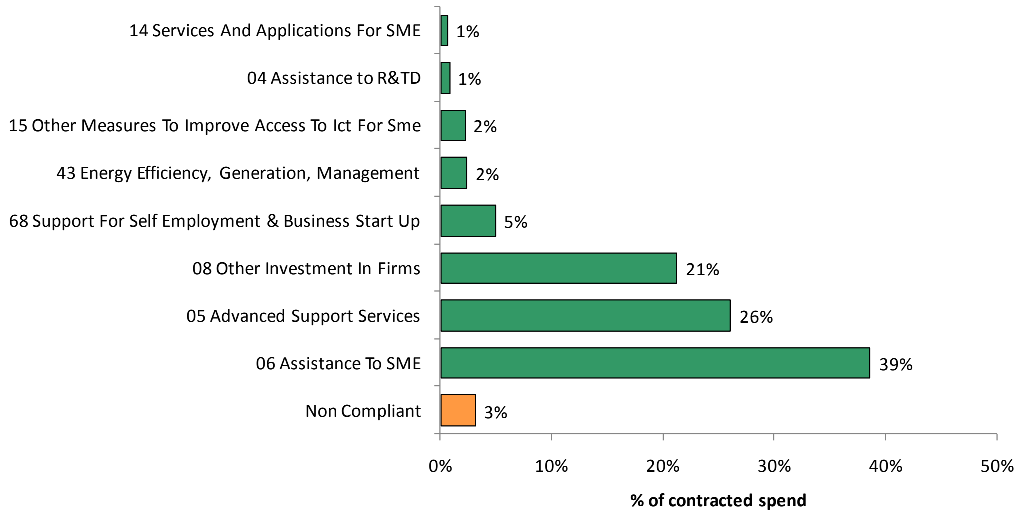
- **42% of jobs safeguarded to date**. The core Business Link support has been important here, but the Business Recovery Service has claimed 461 safeguarded jobs.

5.32 In the absence of these large contracts, it is likely that access to finance projects, particularly small business loans and Advantage Early Stage and Growth equity funds, will be the central drivers of new job creation. Overall, projects providing financial assistance are expected to account for 67% of future job creation within the priority (assuming that all projects' performance is in line with their contracted outputs).

Lisbon Compliance

5.33 Almost all funds committed via Priority 2 to date (97%) are Lisbon Compliant. Unsurprisingly, assistance to SMEs represents the majority of this activity, with advanced support systems and other investment in firms making significant contributions.

Figure 5-8: Overview of Lisbon compliant activities (for committed funds at May, 2011)



Source: Programme monitoring data

Assessment of Priority 2 Investments

Key Delivery Factors

5.34 The central factors influencing the delivery of Priority 2 are outlined below

Close alignment of priority strategy to regional objectives...

5.35 The close alignment between Priority 2's objectives and the WMES provided hooks for much of Priority 2's allocation to be matched with Single Programme funds and was critical in getting projects of sufficient scale to address the priority's objectives up and running quickly. Regional plans and strategies for access to finance and enterprise support were drawn up on the basis that ERDF would be a key source of match funding, ensuring a strong fit from the outset. This, allied to the ability to draw on strong existing partnership arrangements with the Regional Finance Forum, chambers and key cluster organisations helped the priority to develop a bank of reasonably well worked up proposals to feed into the priority at an early stage.

Strongly influenced by national policy drivers and programmes

5.36 Using ERDF funds to boost the scale and scope of national programmes such as MAS, Business Link contracts and Grants for Business Investment enabled a number of large projects to get off the ground relatively quickly and was an important factor in the strong early performance of Priority 2. In particular, the investments made within Priority 2 were shaped by:

- **Business Link's central role as the regional gateway to business support**. From the outset of the programme, it was expected that ERDF would be matched with Single Programme funds via Business Link. This allowed Priority 2 to secure large scale revenue funded enterprise support initiatives with sufficient reach to deliver against many of the priority's key objectives. As BSSP progressed, Business Link's role as the gateway to the Solutions for Business portfolio cemented its critical role in Priority 2.

- **Business Support Simplification process.** The emerging Solutions For Business product portfolio had a marked affect on the investments possible within the programme. For example, it became clear early in the BSSP that it would not be possible to fund the Proof of Concept (PoC) Fund (which was included in the OP) as this would be outside of the product portfolio. As this was an important element of the finance provision within the priority, a limited lifespan PoC fund was approved and delivered before the SfB portfolio came into play.

5.37 As a result of the strong integration of BL activity with that of the Programme, most of the central Priority 2 objectives are being addressed by a small number of large scale projects matched with Business Link funded contracts. Most of these large Business Link contracts have recently or are now coming to a close. The second phase of the Transforming Business project and the ICT and Innovation Advisory Services all finished in March 2011.

Combination of commissioning and open calls in building up the investment portfolio

5.38 The use of direct commissioning ensured that region wide support services to address critical priority objectives (start-ups, innovation advice, IT advice and general business support) were up and running quickly. There are clear benefits to this approach. In particular, the coherence of the core support services on offer across the region and full integration of Business Link as a gateway for support have helped to avoid confusion in the market place and the use of large core contracts provided efficiency savings. It is possible however that the approach has made some, more specialist elements of support (eg. high growth support) less visible in the programme than if each of the theme sub sets had been catered for by a separate project.

5.39 Alongside the commissioned contracts, open and limited calls were issued to attract bids from projects to fill any gaps in the investment portfolio and provide specialist or targeted support to address areas not covered by the core contracts. As well as demonstrating fit with Solutions For Business, all projects were required to show their additionality beyond the core support provided through Business Link and a commitment to working alongside Business Link in delivery. Priority 2 has been included in four open calls (one each year between 2008 and 2011) and two limited calls (which were primarily to assist projects unable to proceed or threatened by public funding restrictions).

5.40 The quality / relevance of some of the bids into the priority (particularly from open calls) was not as strong as anticipated, which resulted in greater resource requirements for project development and slower progress through the pipeline for projects resulting from open calls.

A strong portfolio of Access to Finance projects...

5.41 The portfolio of financial instruments funded by Priority 2 was developed to address the funding requirements of businesses (based on evidence from a review of the supply of risk capital in the region). As well as boosting nationally available programmes such as Grants for Business Investment, finance provision cut across the key portfolios addressing finance requirements for business growth (eg. Early Stage Equity Fund) specialist sector requirements (eg. Advantage Media Production Fund), and finance requirements for start ups (eg. Small Business Loans). Evidence provided by the EPMT suggests that the Programme currently exceeds the 30% indicative threshold it set for the proportion of Priority 2 resources allocated to financial assistance to SMEs by around 6%, with further demand for resources in the pipeline.

... but difficulties linking financial instruments to other support services

5.42 There have been some difficulties linking finance projects to wider business support activities available in both P1 and Priority 2. The Proof of Concept fund provided an important linkage between the priority's finance offer and wider aspirations for innovation and R&D but this fund was only able to operate before the Solutions For Business portfolio came into force.

5.43 The Investment Readiness project was a key link in the chain between business support and financial instruments and was envisaged as part of the package of specialist advisory services delivered by Business Link. This project did not progress through the pipeline as quickly as anticipated (largely as a result of capacity constraints) and was nearing full appraisal stage when Business Link's closure was announced.

Wider economic environment has had a marked effect...

5.44 Changing economic conditions have had (and will continue to have) a marked effect on the progress of the priority. In particular;

- There has been a general dampening of demand for growth related and start-up support
- There are some signs that the need to sustain employment and maintain business performance through recessionary conditions has resulted in a shift of emphasis towards safeguarding rather than creating employment. Progress against the jobs safeguarded target has been particularly strong, more than doubling the priority target already. The target for jobs safeguarded was set at a very low level in comparison to the jobs created target (1,125 safeguarded compared to 7,969 created jobs).
- Demand experienced by finance projects has been greater than expected as a result of the more limited availability of business finance, although the nature of finance required has shifted slightly in addition. For example venture capital funds are reportedly seeing applicants looking for larger investments to counter the limited availability of finance from elsewhere.

...and limited availability of match funding has stalled progress in some portfolios

5.45 Lack of match funding has been an issue across the board, but particularly in terms of enabling specific gaps in the portfolio to be plugged. For example, a specific call for projects to support BME enterprise had a reasonable return, but all projects were formally withdrawn due to reduced match funding across the region.

5.46 This issue began with the reduction of SP match funding availability in 2009, but has become more exacerbated recently with the overall squeeze on public funding availability, abolition of the RDAs and other public sector organisations. Some projects have found it difficult to lever in private sector match funding during recessionary conditions, although it has remained an important element of the funding mix in Priority 2.

There are some critical gaps in the Investment Framework

5.47 There are now a number of significant gaps in the investment framework, although these gaps are mostly more recent developments. Most notably, an Investment Readiness project was not approved. This was one of the actions highlighted within Portfolio 3 in the Operational Programme, and it was expected that an impartial advisory service (i.e. not directly connected to or affiliated with any of the A2F projects within this, or other priorities) would be developed and delivered through Business Link. A project was developed but its progress through the application system was held up by a combination of factors (notably internal capacity issues at Business Link, who were developing a number of projects concurrently). The project was about to be appraised in May 2010, but had to be abandoned following the change of government and public sector funding cut-backs.

5.48 Some other critical gaps have started to open up more recently as a number of major projects have come to the end of their lifespans and have not yet been replaced. In particular, gaps are emerging around the higher volume, region-wide support and advisory services previously delivered through Business Link including:

- Generalised **information, advice and brokerage** for established businesses. The model of business support in the West Midlands gave core Business Link provision a central role in providing a first point of contact for businesses and signposting to other sources of support.

- **Support for start-ups**. Financial assistance for start ups remains strong, although following the closure of Business Link, the programme now lacks a project to provide information, advice and signposting for start-up and early stage businesses.

- **Innovation Support.** The Business Link Innovation Advisory Service closed in March 2011 and has not been replaced.

- **Environmental and resource efficiency advice**, following the closure of projects (eg. Environmental Advisory Service). However, a number of sub-regional projects are emerging to provide resource efficiency advice at sub-regional level.

Results from recent open call present opportunities to fill some of these gaps

5.49 Although projects responding to the open call are predominantly much smaller scale and localised, there are a handful of projects of sufficient scale and reach to fill some of the gaps in the investment framework. Alongside a small number of large scale indicative projects with potential to cover enterprise support and access to finance, responses to the open call point to strong interest in smaller scale and more localised support. Together, these responses to the open call suggest that the Programme should have the potential to enable to continue target support at specific sectors, localities and communities. Achieving the right mix of regional, sub-regional and local activities will be the key test for the Programme.

Assessment of Priority 2 Investment Fit and Pipeline

Table 5-6: Summary Assessment of Priority Investments and Pipeline

Portfolio	Investment Fit and Gaps	Strength of Pipeline
Improving business performance	• Strong provision of revenue funded business support projects with a clear fit to priority objectives. • Key investments have sufficient scale and reach to make a strong contribution to priority targets for businesses assisted and jobs created / safeguarded targets, although many of the larger projects are coming to an end. • Heavily dependent on a small number of large projects to achieve objectives / meet targets in this portfolio; uncertain future of Business Link contracts leaves the priority exposed to currently contracted projects hitting difficulties. • Specialist support available for a handful of priority clusters - aerospace, building technologies, food and drink and ceramics. ERDF enhancement to MAS now complete but scope for further enhancements unclear until regional MAS providers appointed. • A2F enhanced response to recession and constraints on capital availability to businesses.	• The eight pipeline projects currently on the investment framework are predominantly small scale and sub regional • Responses to the recent open call will strengthen the pipeline with some sizeable, region-wide projects that have potential to fill gaps in the portfolio that may open up when core Business Link contracts come to an end. • Aside from a handful of region-wide projects responding to the open call, the move towards smaller scale and more locally based projects remains evident. • Continuation of the SME internationalisation project prioritised (c.£7.3 million ERDF) in recent exercise • Sources of match funding remain uncertain for many projects. • Private sector match funding (via SME contributions) likely to be critical to this portfolio. • Universities and Local Authorities may offer good opportunities for match funding, although even here, opportunities are limited.
Developing applied innovation activity/improving resource efficiency	• Small number of larger scale, core investments which directly address portfolio objectives. • Investments focused around core Business Link provision (including IAS and EAS). • Core resource efficiency support via Environmental Advisory Service enhanced by WM Industrial Symbiosis network. • Proof of Concept fund was short	• Reasonable number of projects in pipeline, although large proportion on hold (largely due to difficulties securing match funding) • No core innovation service in pipeline to replace Innovation Advisory Service which ended in March 2011. • Small scale supply chain programmes for Rail and electronic vehicles endorsed at outline. • Environmental advisory service and other resource efficiency projects closed, although some now in pipeline and feature prominently in responses to open call. Large resource efficiency project (WRAP, c. £4m ERDF) at contracting stage. • Universities could be a key source of match funding moving forwards.

Table 5-6: Summary Assessment of Priority Investments and Pipeline

Portfolio	Investment Fit and Gaps	Strength of Pipeline
		• Open call has attracted a number of bids for technology and innovation related projects from HEIs, which had previously been unengaged with Priority 2.
Developing entrepreneurial activity	• Strong portfolio of financial assistance emerged from robust analysis of needs of the region's businesses. • Limited provision of revenue funded start up support outside of the core support available via Business Link. • Limited provision of support directed at individuals facing barriers to enterprise (largely because of lack of LEGI activity in WMs). Existing provision limited to Black Country. • Current provision for high growth start-ups is limited to financial assistance only, there is no revenue funded support and assistance for high growth starts.	Strong pipeline from a diverse array of applicants - although sources of match unclear in some cases. Responses to open call have potential to strengthen ERDF funded activity in this area. • Shift towards sub regional / local projects most pronounced for this priority. Particularly for projects aiming to address barriers to enterprise (related to the type of applicant organisation for this priority) • Scope to embed a wider array of match funders in this portfolio (particularly from the third sector).

Conclusions

5.50 The overall conclusion about Priority 2 is that it has made strong progress to date in committing investment, securing outputs/results and supporting enterprise development activity in the West Midlands. However, changes in policy and public funding have probably affected Priority 2 more substantially than the other main Priorities. The strategic objectives of Priority 2 remain relevant to the region but the programme now faces considerable challenges resulting from the loss of Single Programme funding, the closure of AWM and Business Link. Difficulties responding to these challenges are likely to be exacerbated by the continued uncertainties about how publicly funded business support will be delivered and commissioned.

5.51 The specific conclusions about progress made in Priority 2 to date are as follows:

- The strong early progress in Priority 2 came about largely due to the early commitments to large scale business support projects made by the priority. Matching ERDF with Single Programme and Business Link funds enabled a number of large scale projects that addressed key priority objectives to get up and running quickly. At the same time, development of smaller scale, more specialist projects (e.g. cluster projects) helped ensure a substantial breadth of activity was contracted outside of the core business support contracts.

- The early success of Priority 2 owes a lot to the strength of partnership working in the region. Pre-existing working relationships amongst key players (such as Business Link, Regional Finance Forum, cluster organisations etc) was a central factor, and the role of AWM in coordinating relationships and binding partners together was very important. With the closure of organisations that have played a pivotal role to date and uncertainty about the funding arrangements for others, the ability to draw on the strength of partnership working to drive Priority 2 forwards is now much more limited.

- Progress against output targets has been strong to date. Several of the key targets have already been achieved (although some of these may not have been sufficiently stretching). If committed projects achieve the anticipated outputs and results, the critical targets for jobs created, jobs safeguarded and businesses created or attracted to the region will all be exceeded. Progress against the business assists target is broadly in line with the level of commitment in the priority to date, however the substantial headroom does underline the need to invest in projects delivering high volume business support activity. This may now be harder given the shift to a more localised approach to delivery.

- Although the breadth of projects supported by Priority 2 is substantial, some gaps in the investment framework remain and further gaps look set to open up. Some key strands of activity commissioned early in the priority have recently closed (e.g. Innovation Advisory Service and core Business Link support). While the pipeline and recent open call contain a handful of large projects with potential to fill some of these gaps, many proposals are contingent in unconfirmed match funding. There is no Investment Readiness support or support for high growth start-ups in the pipeline, and match funding situation of enterprise and business mentoring projects in the pipeline is not certain.

- Business finance projects have proved to be a critical feature of Priority 2, enabling the Programme to substantially contribute to the region's response to the recession and help to tackle the lack of availability of finance that resulted from the credit crunch. Businesses in the West Midlands continue to face significant challenges in accessing finance and ERDF funded projects are likely to continue to be seen as an important mechanism for addressing this deficit.

- There is scope to develop stronger links between the support offered in P1 and Priority 2. Enterprise support and financial instruments could play important role in process of commercialising research and development (e.g. support for spin outs, assistance with licensing).

5.52 The evaluation has not found any critical concerns about Priority 2's ability to spend its remaining allocation. Helping improve performance of businesses, stimulate new start-ups and encourage innovation remain key priorities nationally. The pipeline (and responses to the recent open call) point towards a continued appetite for developing and delivering enterprise support projects by local partners. The priority does, however, need to overcome a number of key challenges to ensure that the remaining allocation can be invested in a way that is consistent with the strategy. In particular:

- Match funding opportunities in Priority 2 are now, on the whole, scarcer and more fragmented. There may be some scope to match ERDF with national programmes (e.g. MAS, high growth support) but it is not clear whether it will be possible to use Priority 2 funds to enhance the intensity or scale of assistance in the region in this way. Other potential sources of public sector match funding are now more localised with Local Authorities and HEIs becoming more prominent, as well as using SME contributions towards the cost of assistance to match ERDF.

- Loss of AWM as a coordinating body and match funder could drive a move towards smaller scale, more localised projects. It is not clear which organisation (or organisations) will be able to catalyse the development of large scale projects with the scale and scope to address key priority objectives. The increasing localisation of support is not, in itself, problematic but the loss of strategic focus and scale that the OP's alignment with the RES brought may undermine the longer term impact of the programme. In addition, fragmentation of support could lead to duplication, inefficiency and, critically, confusion in the market place. There may be potential for LEPs to take an active role in driving the priority forwards and coordinating activities of more locally based partners, but their capacity to take on this role is, as yet, unclear.

- A lack of capacity to develop, deliver and manage projects is emerging as a critical challenge for Priority 2 and once that looks set to become more pronounced in the future (for example as funding cuts to local authorities take effect and contracts to delivery Business Link support end). Capacity is variable across LEP areas, which might further exacerbate sub-regional variations in support. There is some evidence that the private sector is taking an interest in developing and delivering projects (e.g. open call results have attracted bids from a number of private sector organisations), but there are substantial obstacles to private sector led ERDF projects (not least, the strict guidelines preventing profits from ERDF projects).

Recommendations

5.53 The evaluation makes the following recommendations about the future focus of strategy and delivery in Priority 2

LMC should seek to encourage a strategic approach

5.54 The regional architecture that enabled and encouraged coordination amongst authorities and sub regions to date is no longer in place although the need to maximise efficiency and ensure a clear and well defined offer to business remains important to the programme. Although Priority 2 clearly has to adjust to a more localised way of operating, maintaining a strategic focus will be essential to ensure that the remaining headroom in Priority 2 is committed in a way that is consistent with the strategy.

5.55 Resource for the development of a formal mechanism to secure a strategic and coordinated response is unlikely to become available and, in any case, seeking to develop a comprehensive mechanism for coordination would stall investment in the priority. Nonetheless, the need to avoid an overly complex landscape of support and loss of economies of scale brought about by increased localisation remains, so the LMC needs to both clearly communicate the need for a strategic approach to partners and align its way of working to promote and encourage coordination amongst applicants at a sensible spatial and thematic scale. To achieve this, LMC should:

- Issue targeted calls to fill gaps in the investment framework. The LMC should look to play a strategic role in ensuring coherence and scale in what remains a regional ERDF programme. While there clearly have been investments directed at localities and there should continue to be in future, the task in identifying and addressing gaps in the investment framework should be about ensuring that Priority 2 is effectively coordinated and avoids the risks of duplication or pepper potting.

- Promote the potential role for ERDF in delivering LEP aims. LEP areas appear to offer the greatest opportunities for meaningful coordination but their appetite for involvement in the programme varies across the region. LMC should engage with LEP boards to highlight the scale of resource available through ERDF and its potential contribution to LEP priorities.

- Prioritise larger scale, higher volume activities. Limits on capacity for project development internally mean that prioritisation of projects is becoming increasingly critical. LMC should seize on the opportunity to formally adopt a prioritisation framework that aligns with and reinforces the need for larger scale, higher volume, strategic projects. The prioritisation framework should be clearly communicated to applicants (both to assist in their decision over whether to apply for funds and to encourage the development of more strategic projects). The framework should give priority to projects that

  - ➢ Exceed a critical ERDF investment threshold
  - ➢ Make a significant contribution to priority output / result targets
  - ➢ Fill emerging or existing gaps in the investment framework

  - Span multiple local authority areas
  - Meet or exceed the Programme's value for money / return on investment thresholds

- The framework should also underline the type of projects that will not be prioritised, in particular those that duplicate existing ERDF funded region-wide provision on a local basis. For example, the Programme should discourage localised equity and larger loan funds. Evaluation evidence on financial engineering instruments suggests that small scale funds of this type tend to increase the risks of duplication and have relatively high management costs as a proportion of their investment funds. However, there should be scope to support micro-finance instruments of the type operated by Community Development Financial Institutions (CDFI), and there is understood to be strong interest in ERDF from West Midlands CDFI.

- Consider increasing selected priority targets. Increasing targets that have already been exceeded for (i) people assisted to start a business and (ii) jobs safeguarded would help focus the remainder of Priority 2 spend on projects of appropriate focus and scale and ensure that targets continue to provide a useful guide to where headroom should be invested.

Review the Programme's indicative allocation of 30% of Priority resources to projects providing financial assistance to businesses

5.56 Demand for ERDF investment to support the development business finance projects (grants, equity, loans, micro-finance) has been strong from the outset. As current commitments stand, the Programme exceeds the indicative threshold of 30% set by the Operational Programme for the proportion of Priority 2 resources for this type of investment. Given tough trading conditions, the continuing effects of the credit crunch and evidence of further, strong demand for ERDF, the Programme now needs to consider whether this threshold should be adjusted in negotiation with the Commission. If further investments are made in equity and loan projects, the Programme needs to ensure that it discourages small scale and localised instruments which increase the risks of duplication and tend to have high management costs as a proportion of the value of their investment funds

Be ready to seize opportunities to add value to national programmes

5.57 Programme needs to be prepared to seize opportunities to boost the scope of national programmes in the West Midlands but this is only likely to be possible where there is a genuine role for ERDF in enabling more intensive or enhanced support to be provided. The picture of business support provision nationally is still emerging, but there are a number of programmes which Priority 2 might be well placed to add value to. For example, although future delivery arrangements for the Manufacturing Advisory Service remain unclear, the coalition government has affirmed its commitment to the programme and a national procurement exercise for a delivery body is currently underway. It is not clear whether a single national provider, or a consortia of regionally providers will be appointed but there may be scope to use ERDF to boost the MAS offer in the West Midlands. The LMC could assist in exploring ways in which ERDF might enhance the future service.

Explore the further use of SME contributions as match funding and likely impact on demand for and take up of services

5.58 The pipeline and responses to the recent open call indicate that SME contributions to support costs could become an increasingly central component of the match funding mix in Priority 2. As the delivery of support in the Priority is heavily dependent on the level of demand from SMEs, the inclusion of SME contributions to the match funding mix enhances the risk associated with project delivery.

5.59 The programme needs to seek a clear understanding of whether charging for services that have previously been delivered free of charge, or reducing the level of subsidy available for services will have an effect on the demand for services (and as a result the ability of projects to deliver).

5.60 As this issue is not restricted to Priority 2, it would be preferable to undertake a cross priority review into the impact of more widespread use of SME contributions as match funding on a number of areas (notably, demand for services, levels of additionality, potential for crowding out and contribution rates). Given the limited resource available, it is unlikely that this would be viable so the burden of ensuring the viability of this source of match will likely shift onto applicants. The LMC needs to:

- Set out a clear expectation that applicants must evidence demand for charge for services. Guidance should specify the type of evidence that will be acceptable. Primary research into demand and price sensitivity within a project's target market would provide the most robust evidence base, but LMC should also identify any appropriate secondary sources or delivery models that applicants could draw on.

- Ensure that crowding out effects are considered before investing. The rationale for subsidised business support has, in many cases, been based on a perceived unwillingness amongst businesses to invest in certain types of support services. If market testing establishes that there is demand for paid-for support, applicants should be required to fully assess whether the project would impact negatively on commercial providers by; mapping providers of similar support services in their target area, identifying any areas of overlap between services and comparing pricing structures. The programme should not support any services that will undercut existing private sector provision.

LMC should explore ways of maintaining delivery capacity in the region

5.61 The recent closure of many of the region's larger scale business support programmes alongside reduced public sector funding for intermediaries and other providers looks set to considerably erode delivery capacity in the region. Actions are required now to minimise the loss of capacity in particular:

- Secure intelligence on current and past providers of Business Link services. There is a large bank of providers in the West Midlands that have, until recently, been delivering support thorough Business Link contracts. It is understood that Business Link and other organisations have already approached LEPs to offer access to delivery frameworks and other intelligence on delivery bodies, their expertise and areas of specialism. It is not clear whether the importance of this information to securing future capacity in the region has been communicated to LEPs so the programme needs to impress upon LEPs the importance of securing this information. In addition LMC should seek an agreement with LEPs over access to and use of this important resource.

- Results from the open call suggest that there is an appetite in the private sector to lead ERDF enterprise support projects. The Programme should be seeking to actively engage with these and other private sector organisations to explore ways of working together in the future. Particular issues that need to be overcome include how to configure a private sector led project in a way that does not break ERDF regulations about applicants making profits in the delivery of services, and ERDF rules on the procurement of suppliers that will be funded through ERDF.

Key risks for the Priority should be managed through a task and finish sub-group

5.62 Given the scale of challenges faced by Priority 2, there is a case for setting up task and finish sub groups to ensure that the key risks are managed. These groups do not need to be formally constituted, but should be tasked with monitoring (and reporting to LMC on) key areas of priority performance. LMC should set up the following task and finish groups:

- **Strategy and Delivery.** This group should focus on refining and putting into practice the strategic and delivery changes recommended for Priority 2. LMC should look to secure LEP membership on this group and encourage LEPs to work towards identifying shared priorities amongst member authorities.

- **Efficiency and effectiveness of delivery**. Routine contract monitoring activities will pick up on any project specific issues, this group should be tasked will assessing the efficiency and effectiveness of the Priority's investments as a whole and maintaining a strategic focus for the priority by identifying areas of duplication, highlighting underperforming themes etc.

- **Demand for Priority 2 projects and gaps in the investment framework.** The need for this group is linked to the uncertainty over the impact of SME match funding contributions on levels of demand for Priority 2 services, but also extends across all projects in the priority (given that their delivery is so dependent on demand from businesses. It will be essential to maintain a focus on monitoring demand to ensure that Priority 2 delivers on its existing and future commitments. The task and finish group should also be well placed to review and advise on gaps in the investment framework.

6. Review of Priority Three

Priority Strategy and Objectives

6.1 Priority 3, Sustainable Urban Development (SUD), aims to stimulate renaissance in the key urban areas of the West Midlands. The Priority seeks to address the significant concentrations of economic need within the region through generating employment opportunities that are accessible to people within these communities. By encouraging enterprise in areas of greatest need, and in linking people to these opportunities, the rationale under-pinning this priority was that it would be a major contributor to raising productivity across the region. The objectives of the Priority were as follows:

- Create new employment opportunities
- Promote the take-up of these opportunities by residents in disadvantaged areas; and
- Develop a range of environmental measures to improve the sustainability potential of these areas.

Portfolios

6.2 Priority 3 was allocated €102 million (this was worth £69m in 2007, but now represents £90.6m at the current exchange rate, May 2011). The Priority is broken down in to three portfolios with the following resource split:

- Employment Creation Actions: 60%
- Community Innovation Actions: 35%
- Wider Employment & Community Actions: 5%

6.3 The following table presents an overview of the indicative actions the portfolios can support. Compared to P1 and Priority 2 the breadth of activities which P3 can support is extensive. While this enables greater flexibility to package areas on the suite of projects which they bring forward, the drafting of P3 within the Operational Programme would have benefited from greater clarity on the fit and eligibility of indicative actions. This could have led to greater transparency and removed some of the uncertainty that was experienced in the early part of the Programme.

Table 6-1: Priority 3 Portfolios and Indicative Actions	
Portfolio	Indicative Actions
1. Employment Creation (a). To create jobs in the package areas through the re-use of redundant or underused sites/premises.	• Investment in the reclamation and re-use of previously developed land (inc. buildings or sites) • Leading to business floorspace for target sectors • Restoration of historic buildings and assets • Removal of physical barriers to growth/development. • Integrated public realm activities which create/safeguard employment and encourage investment in local areas. • Place marketing/inward investment promotion
1. Employment Creation (b) To increase energy efficiency and productivity in SMEs in P3 package areas via the promotion of environmental technologies and knowledge economy	• Grant schemes and non-financial assistance for SMEs and VSOs to improve productivity through investment in energy efficiency, waste management and renewable. • Pilot projects in using and promoting new environmental technologies in the package areas (e.g. CHP, broadband, biomass, and clean urban transport). • Supporting projects which are compatible with the knowledge economy, innovation and research/technology agenda, where benefits can accrue to the local business community.
2. Community Innovation Actions – to increase job take-up by residents in disadvantaged areas through improving access to ICT, training and enterprise facilities, and travel to employment opportunities.	• Strategic investments (e.g. new, expanded, enhanced enterprise and training centres focussed on improving the pathways to employment and enterprise in growth sectors). Revenue support can also be used to support the effectiveness of such centres. • Community greening projects of derelict land, improvement of public spaces, cultural outreach – all actions which can involve active participation by the target local community. • Investments in ICT infrastructure to support learning and access to training/employment opportunities. • Travel improvements which link disadvantaged communities to employment opportunities.
3 .Wider Employment and Community Actions	• Revenue resources to fund limited activities which focus on wider actions to bring employment to the region's main urban areas and to promote wider actions on sustainability and digital inclusion.
Note: Summarised from a review of the Operational Programme	

Delivery Approach

6.4 Priority 3 is delivered differently to the Programme's other priorities. Similarly to the previous Objective 2 Programme, P3 has been implemented using an area based package approach. The Operational Programme identified that packages should be targeted at areas in the region where there was greatest economic need and disadvantage. Following an expression of interest process, the six areas selected were those where there was an existing economic development and regeneration focus by partners and initiatives (eg. areas within Regeneration Zones, LEGI areas).

6.5 The benefit of this approach is that it gave partners in these areas the opportunity to develop a series of inter-linked and complementary projects to tackle challenges of economic need in their localities. This approach also enabled a greater focus to quite limited ERDF resources, as well as opportunities to align match funding.

6.6 The six package areas selected were:

- Birmingham

- Coventry & Nuneaton
- Solihull
- North Staffordshire
- South Black County
- North Black Country

6.7 Each Package has a Package Owner and Manager. The day to day responsibility/co-ordination of the package is undertaken by the Package Manager. The manager is responsible for the production and overall coordination of a Package Plan encompassing a suite of projects which realise the strategic benefits, specific actions and outputs outlined under Priority 3. The manager plays a strategic role in supporting applicants in bringing forward projects ensuring that the projects have a strategic fit, maximise impact, and form part of a coherent suite of projects for the package area.

6.8 The approach places a greater emphasis on partners in the region to manage the process of project development, take ownership of the Priority, and to liaise directly with the ERDF EPMT. In this context, P3 has an additional level of administration and governance compared to P1 and Priority 2.

Package Allocations

6.9 Based on exchange rates at the end of May 2011, the total Sterling value of Priority 3 was **£90.6m** from a euro valuation of €102m (the Sterling value of P3 in 2007 was originally c.£69m). Each package was awarded an allocation based on their proposed activities in their plans. While this varied across package areas, the total allocation across all packages was **£82.5m** (i.e. there was some over-programming by the EPMT at this stage given the £69m valuation). The largest allocation was to Birmingham with £24m; with North and South Black Country, Coventry and Nuneaton, and North Staffordshire all receiving £12m; and Solihull £10.5m.

6.10 Some key points to note regarding package allocations:

- As a result of exchange rate changes, approximately **£8.1m** of P3 funding remains outside of the packages, and is uncommitted. However, this value has the potential to change in line with changes in the Euro-Sterling exchange rate.
- In 2009 packages were invited to develop Priority 1 and 2 projects, both to accommodate pipeline projects which were a better fit for Priorities 1 and 2 (or whether there was significant overlap) and to help strengthen commitment rates. However, while these projects are considered part of the investment frameworks in P1 and 2, vireing did not formally take place. Based on the latest information provided by the EPMT (July 2011), this has effectively left **£7.8m** of P3 funding which is a potential source of funding for a JESSICA (Joint European Support for Sustainable Investment in City Areas) project (see analysis below).

6.11 The following table provides an overview of the package allocations showing the value of projects in Priorities 1 and 2.

Table 6-2: Summary of Package Values Including P1 and P2 Projects

	Package Allocations (A)	Value of P3 projects in Priorities 1 and 2 (B)	Package Value (C) (A-B=C)
South Black Country	£12.0	£0.3	£11.7
North Black Country	£12.0	£0.3	£11.7
Coventry and Nuneaton	£12.0	£1.6	£10.4
North Staffs	£12.0	£0	£12.0
Birmingham	£24.0	£5.3	£18.7
Solihull	£10.5	£0.4	£10.1
Total	**£82.5**	**£7.8**	**£74.7**

Source: EPMT/Regeneris Consulting

Table 6-3: Summary of P3 Funded Projects reallocated to P1 and Priority 2 by Package area

Project Name	Package	Priority	ERDF (£m)
Ultra Efficient Lighting Product Development Centre	Birmingham	2	£0.4
Design space	Birmingham	2	£0.3
Business Grants to improve energy efficiency	Birmingham	2	£2.1
Enterprise Catalyst	Birmingham	2	£2.0
Entrepreneurs for the Future	Birmingham	1	£0.5
Improving Your Resource Efficiency - Low Carbon Grants (Coventry and Nuneaton)	Cov & Nun	2	£1.6
Black Country Pathways to Enterprise	North BC	2	£0.5
Journey for Success Enterprise Programme - Priority 2	North Solihull	2	£0.4
		Total	**£7.8**

Source: EPMT

Outputs and Results Targets

6.12 Priority 3 accounts for approximately a quarter of the overall Operational Programme budget. The outputs and results targets associated with this allocation of ERDF resources are summarised in Table 6-4 below.

Table 6-4: Overview of priority targets and allocations			
	Indicator	**Total (£m)**	**% of Priority Allocation**
Spend	Total Allocation	£90.6	26%
	Employment creation	*£54*	*60%*
	Community innovation	*£32*	*35%*
	Wider actions	*£5*	*5%*
	Indicator	**Total**	**% of Overall Programme**
Key Outputs	Businesses assisted	1,200	5%
	Leverage	£9m	47%
	Brownfield Land (Ha)	10	100%
	Floorspace Upgraded (sqm)	100,000	100%
	BREEAM	75,000	100%
	People assisted to get a job	3,000	91%
Results	Gross jobs created	1,000	10%

Source: Operational Programme

6.13 The key points relating to Priority 3 outputs and results are:

- Given the nature of P3, supporting sustainable urban development, this priority supports all of the brownfield land output targets in the Programme (10 hectares), as well as all of floorspace (100,000 sqm) and BREEAM excellent or very good rated floorspace (75,000 sqm). Partners in Priority 3 have been considering the development of a JESSICA project, a mechanism which brings together ERDF, European Investment Bank resources and other public and private sector contributions to create investment funds for physical development in urban areas. This could make a significant contribution to the floorspace target against ERDF investment should a decision be taken to proceed with the project.

- Importantly, P3 is also tasked with delivering almost half (47%) of the Programme's public and private investment leverage target of £19m (P3 target is £9m, with Priority 2 contributing £10m).

- P3 must also deliver 5% of the Programme's outputs in assisting businesses to improve their performance (1,200 assists). It is also tasked with delivering 3,000 assists to help people get a job (91% of the Programme total). This target will be supported by activities which come forward under the Community Innovations portfolio.

- While 60% of P3 funding is focussed on a portfolio supporting employment creation, much of this was targeted at indirect job creation through shaping the environment and underlying employment creating conditions (remediation, floorspace, public realm improvements). Jobs created as a result of such interventions are not counted in this Programme. Some direct job creation was expected to come from activity supported under this portfolio, as well as some activity supported under the

Community Innovation Actions. However, the overall job creation target is relatively modest – 1,000 jobs, just 10% of the overall Programme.

Priority 3 Progress

Summary Expenditure and Commitments

Table 6-5: Investment Summary (May, 2011)		
	Number	**Value (£m)**
Priority Allocation		£90.6
Uncommitted P3 allocation (due to currency exchange rate fluctuations)(A)		*£8.1m*
Package Allocations(B)		*£82.5*
Completed projects	-	-
Committed to date *(Of which, contracted)*	**25** *(16)*	**£26.9 (29.7%)** *(£9.2 (34.2%)*
Projects at full application	14	£31.5 (34.8%)
Total potential P3 commitments (including committed projects and projects at full application) (C)		£58.3 (64.4%)
Total P3 package allocation funding spent on P1 or Priority 2 activities (D)		£7.8m (8.6%)
Total potential P3 package allocation commitments (E=C plus D)		**£66.1m (73.0%)**
Remaining package allocations to be committed (F=B minus E)		**£16.4m (18.1%)**
Total P3 value not committed (G=F+A)		**£24.5m (27.0%)**

Source: Programme monitoring data
Committed = projects currently delivering, projects approved at full and awaiting contract.
Full application = projects endorsed at outline, projects working on full application and projects in appraisal. Pipeline – Projects at all stages before outline endorsement

6.14 As of May 2011, only 16 projects (five of which are revenue projects to provide resources for package management) have been contracted in P3 totalling £9.2m. Just under a third of the Priority allocation has been committed to date (equating to 25 projects and £27m of committed spend). However, progress on the defrayal of expenditure has been weak – just 2% (£1.5m) of the total P3 allocation has been defrayed to date.

6.15 A further 14 projects are currently at the full application stage (we are aware that this number has increased since the data was provided following discussions with the EPMT and package managers). Taken together with committed projects, these accounted for 64% of all P3 funding in May 2011 (£58.3m). Some caution is needed in assessing these projects at full application stage, since there a possibility that some may not become Programme commitments. However, given an apparently low drop out rate across the Programme from full application stage (with significant development work undertaken by many P3 projects highlighted by the long periods spent at the full application stage), we anticipate the Priority is now more likely to achieve a committed expenditure position nearing 60-65%.

6.16 Taking into consideration the potential for £58.3m to be committed to P3 projects, as well as the £7.8m earmarked for Priority 1 or 2 activity, approximately £66.1m has the potential to be committed if projects at the full application stage come forward. Therefore from the original package allocations **approximately £16.4m remains uncommitted**. Taken together with the £8.1m of P3 funding as a result of the currency exchange fluctuations, **approximately £24.5m of P3 funding remains uncommitted**.

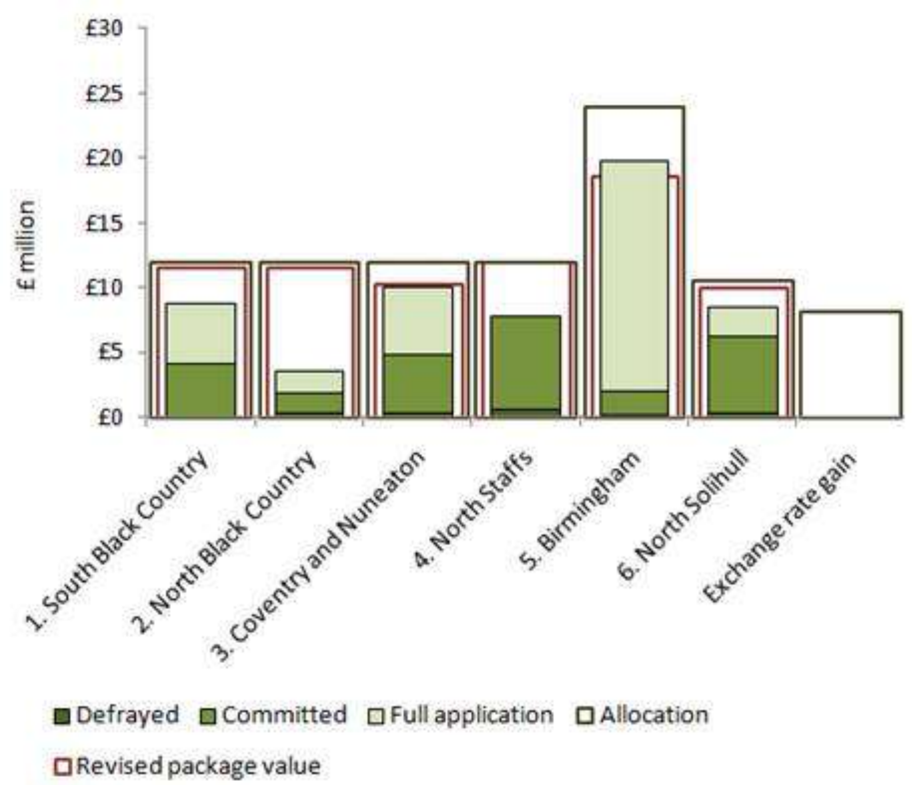
Package Summary

6.17 Figure 6-1 and Table 6-6 illustrate how expenditure and commitments vary across package areas. It is clear that some packages have a greater share of their allocation committed or at the full application stage than others. Our consultations have shown that there have been a number of factors which have affected performance across Priority 3 packages. A summary of the factors which have affected delivery are explored in greater detail later in this chapter. Nonetheless, with a total of £58.34m committed (£26.86m) or at the full application stage (£31.48m), the total headroom left across all packages is currently £16.4m - just over a fifth of all package funding (based on the assumption that all projects at the full application stage proceed).

6.18 Taking into consideration both committed and full application stage projects, most packages areas have seen a marked improvement in the last 6-12 months in terms of potential expenditure, and getting projects to the contract stage, and then into delivery. Only the North Black Country package appears to be off the pace with headroom of £8.25m (70%), with little in delivery and at the contract stage. From discussions with the package manager at NBC, we are aware that some progress has been made in recent months in this package area in terms of project development. The package manager indicated that they would be submitting some further projects to the EPMT once he was satisfied that these were developed to the required standard. However, underperformance remains a key issue with this package.

6.19 Although North Staffordshire has the second highest headroom (£4.16m or 35%), all of its £7.84m of committed expenditure is at the contract or delivery stage. On the other hand Birmingham has no headroom left if projects at delivery, contract and full application stage are considered. This package currently has an over-commitment of £1.03m, with £17.69m identified with projects at the full application stage. Based on Birmingham's current position some further project prioritisation will be required to remain within their allocation.

Figure 6-1: Expenditure and commitments by portfolio (May, 2011)



Source: Programme monitoring data and Operational Programme

Committed = projects currently delivering, projects approved at full and awaiting contract.

Full application = projects endorsed at outline, projects working on full application and projects in appraisal. Pipeline – Projects at all stages before outline endorsement

Table 6-6: Package Performance Summary (May 2011)							
Package	**Delivery**	**Contract**	**Full Application Stage**	**Total**	**Adjusted values for packages (takes account of Priority 1 and 2 project values)**	**Total Headroom**	**% Headroom**
3.1-South Black Country	£0.10	£4.02	£4.64	£8.77	£11.73	£2.97	25%
3.2-North Black Country	£1.90	£0.00	£1.59	£3.49	£11.73	£8.25	70%
3.3-Coventry & Nuneaton	£1.22	£3.54	£5.28	£10.04	£10.43	£0.40	4%
3.4-North Staffs	£3.97	£3.86	£0.00	£7.84	£12.00	£4.16	35%
3.5-Birmingham	£1.33	£0.71	£17.69	£19.73	£18.69	-£1.03	-6%
3.6-North Solihull	£0.64	£5.58	£2.28	£8.49	£10.15	£1.66	16%
Total	**£9.15**	**£17.71**	**£31.48**	**£58.34**	**£74.74**	**£16.40**	**22%**
Source: EPMT/Regeneris Consulting							

6.20 The May 2011 dataset showed very few projects (4) in the pipeline (i.e. projects at all stages before outline endorsement). The dataset only provided full project information for one of these projects (given the incompleteness of this pipeline data these 4 projects have been excluded from the Priority progress analysis). With the reduction in sponsor support, and previous issues on the number of ineligible projects coming forward from packages, we are aware that in the last 12 months package managers have had to work more intensively with applicants. Managers are under pressure to ensure that only robust, eligible and deliverable pipeline projects in package areas come forward to the EPMT. This may be part of the explanation for a weak pipeline at May 2011.

Contracting Rate

6.21 Given the way in which projects come forward through the packages and the time taken to for package managers to get up and running, there has clearly been a long gestation period between the commencement of the Programme and projects being contracted. Some of the reasons for this include:

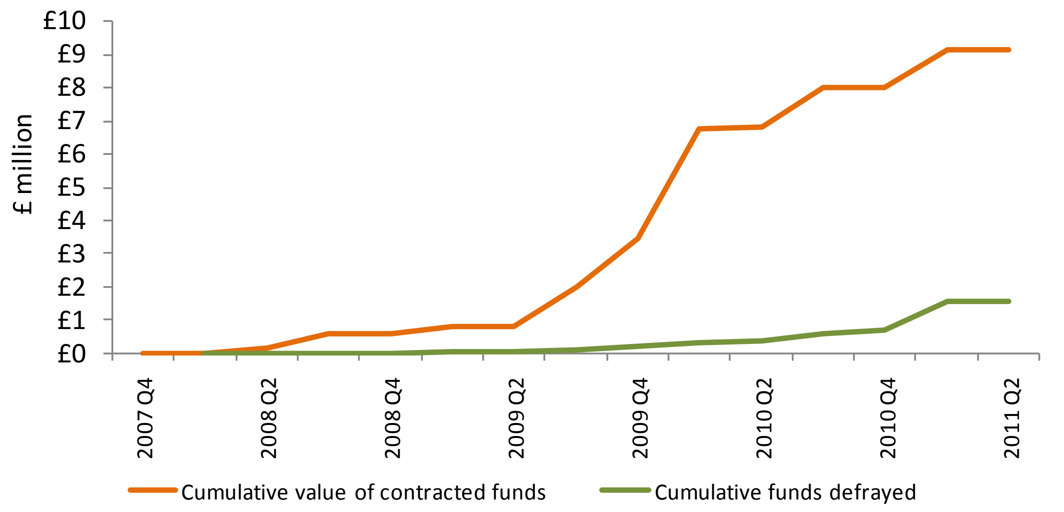
- Projects with a land and property focus often requiring significant lead-in time, as partners work together to develop the project in detail. Land and property projects are a complex undertaking, subject to specific requirements in terms of valuation and surveying, as well as Article 55 ERDF regulations relating to the generation of revenue from ERDF investments. In addition, the economic climate has created significant difficulties with generating demand for land and property, and has had marked effects on land values. All these factors can create delays in bringing forward a viable and eligible ERDF investment.

- Issues across all package areas with initial projects coming forward which were ineligible, some requiring lengthy clarifications (by the sponsor or the applicant), or others which required extensive additional development work.

- Cuts in Single Programme and other match funding which saw some proposed projects withdrawn. For example, the loss of Working Neighbourhoods Funding and the limited amount of Local Enterprise Growth Initiative (LEGI) funding available in the region had negative impacts on the development of projects to tackle worklessness.

6.22 The low levels of contracted funds in the early part of the Programme reflect these points, with most funding contracted in the early part of the Programme attributable to funding to support the package management process. Over time the cumulative contracting rate has increased to £9.2m, reflecting the increase in projects which have eventually come through from the packages and been contracted. We would anticipate that the contracting rate will increase significantly over the next six months as projects at the full application stage progress to appraisal. However, just 2% of the total P3 allocation has been defrayed and substantially increasing the rate at which ERDF is being spent is a critical challenge for Priority 3.

Figure 6-2: Contracting overview (May, 2011)



Source: Programme monitoring data
Note: based on contracted projects only

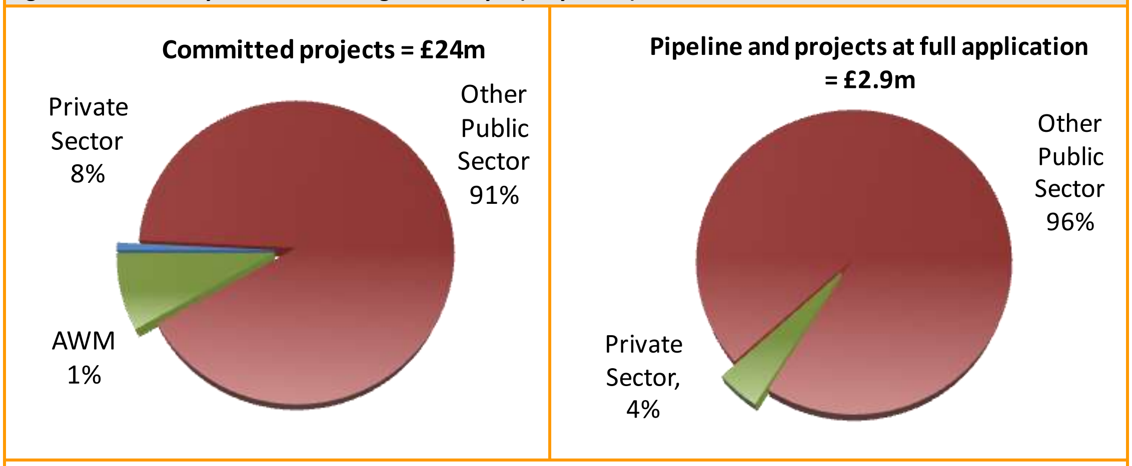
Match Funding

6.23 Single Programme funding was seen as an important match funding source for P3 when the Programme commenced. The development of P3 in the Programme was closely aligned to the strategic objectives of AWM's Regional Economic Strategy (RES), and in particular the Regeneration Zones policy, focusing investment in areas of need (eg. Regeneration Zones).

6.24 The initial cuts and then subsequent withdrawal of Single Programme funding had a detrimental impact on the progress of many project applications coming forward within package areas, as well as on those projects which were already progressing through the full application stage. Applicants were forced to withdraw applications in some instances; while in others significant re-working of projects was required as new match funding was sought. The impact of this was the loss of some projects completely, but more generally, further delays to the progress of P3.

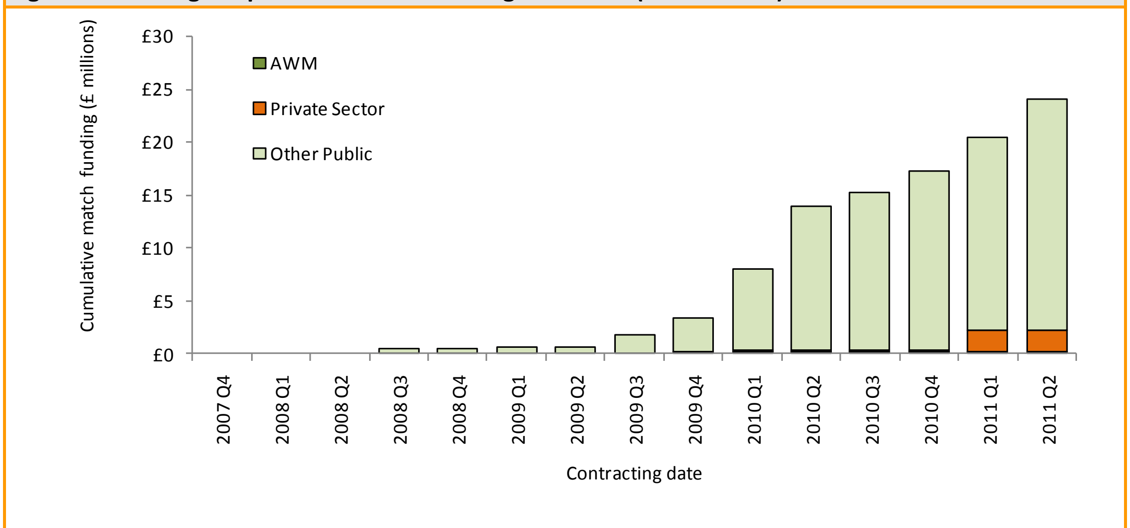
6.25 As such, AWM funding only represents 1% of committed match funding (committed to 3 projects – one focussed on town centre regeneration in North Staffordshire and two smaller commitments to support worklessness/employability projects in Solihull and Coventry & Nuneaton). Other public sector match funding has been drawn upon by many projects in P3 as a result of the loss of Single Programme funding (i.e. largely from local authorities). Over 90% of all match funding for Priority 3 (both for committed and projects at full application or pipeline) is largely from the public sector (non-AWM). Private sector match funding only plays a limited role in P3, and only since 2009-10 when the Programme secured approval from the European Commission to treat private sector funds as eligible match.

Figure 6-3: Summary of match funding in Priority 3 (May, 2011)



Source: Programme monitoring data
Committed = projects currently delivering, projects approved at full and awaiting contract.
Full application = projects endorsed at outline, projects working on full application and projects in appraisal. Pipeline – Projects at all stages before outline endorsement

Figure 6-4: Change in profile of match funding over time (2007 – 2011)

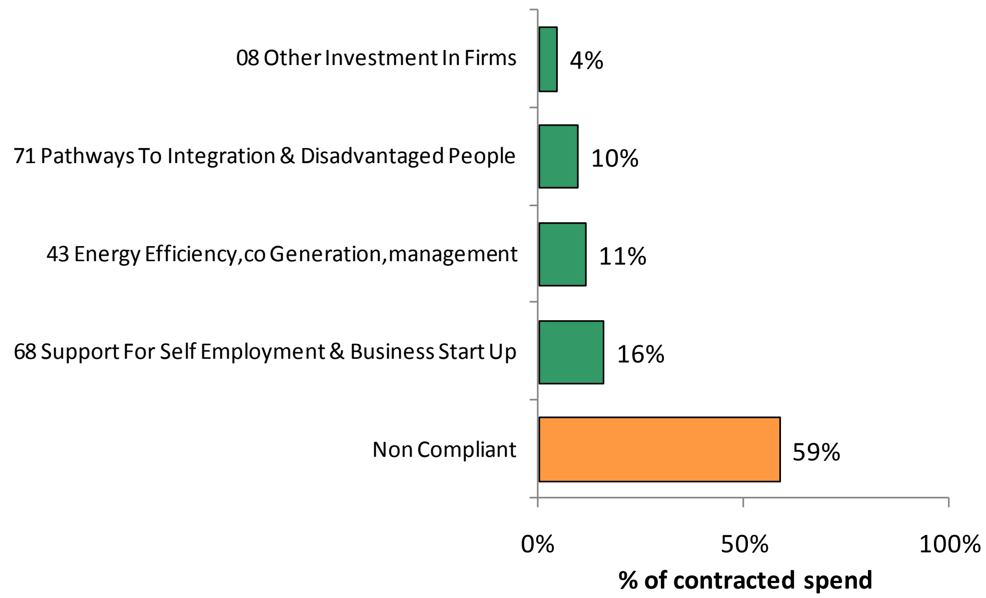


Source: Programme monitoring data

Lisbon Compliant Activities

6.26 The focus of P3 is on achieving sustainable urban development within areas of the West Midlands with the greatest need. Many of the indicative actions supported under this priority are not compliant with the Lisbon agenda (eg. focus on land and property, regeneration). While this was known during the development of the Programme, there was an overriding ambition to still pursue the SUD agenda, following on from the progress made under previous ERDF programmes and reflecting the priorities of local authority partners responsible for drawing up Priority 3 in the Operational Programme. On this basis, only 41% of committed funds under P3 are considered Lisbon Compliant (includes support for individuals to set up a business or be self-employed, linking disadvantaged people to opportunities, and energy efficiency activities). The majority of committed activity (59%) is non-compliant. This played a part in determining the proportion of overall Programme funding that was to be allocated to P3 since partners sought to ensure that the substantial majority of investments would be in Lisbon compliant activity and allocated funds to Priorities 1 and 2 accordingly.

Figure 6-5: Overview of Lisbon compliant activities for committed funds at May, 2011

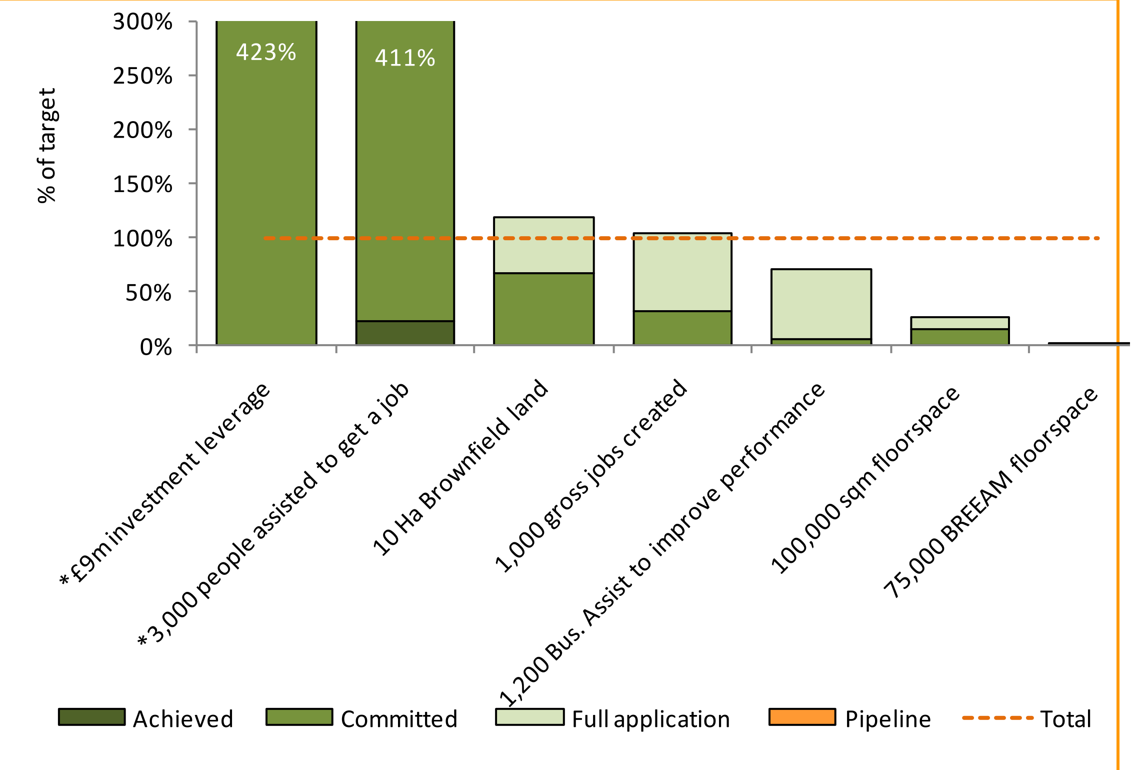


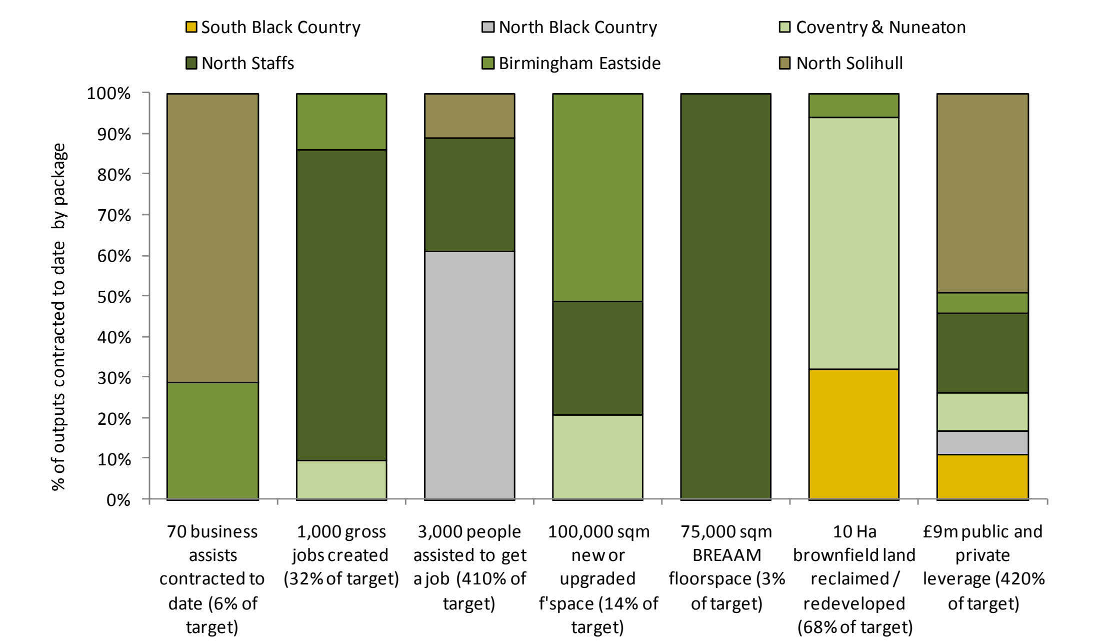
Source: Programme monitoring data

Outputs and Results

6.27 Progress on the headline indicator targets for Priority 3 is summarised in Figure 6-6 below. The key findings are that very few outputs have actually been achieved to date under Priority 3, while no results have been achieved to date.

Figure 6-6: Overview of progress on headline indicator targets by Priority and Packages (May, 2011)





Source: Programme monitoring data and Operational Programme
Committed - projects currently delivering / approved at full and awaiting contract.
Full application – projects endorsed at outline and working on full application
Pipeline – Projects at all stages before outline endorsement
Note: Performance for indicators marked with * exceed the axis range. The % figure denoted in white text refers to the sum of the committed and full application outputs.

- **Investment leveraged -** In the case of investment leveraged, the committed projects are currently expected to significantly exceed the £9m of leverage.

- **People assisted to get a job -** 16,300 people would be assisted to get a job via the current committed projects, far exceeding the target level set at 3,000. Given the extent of potential over achievement against this indicator already, this reinforces the case for focusing resources on other targets where performance is lagging, particularly those investments which contribute to the creation of employment (eg. floorspace).

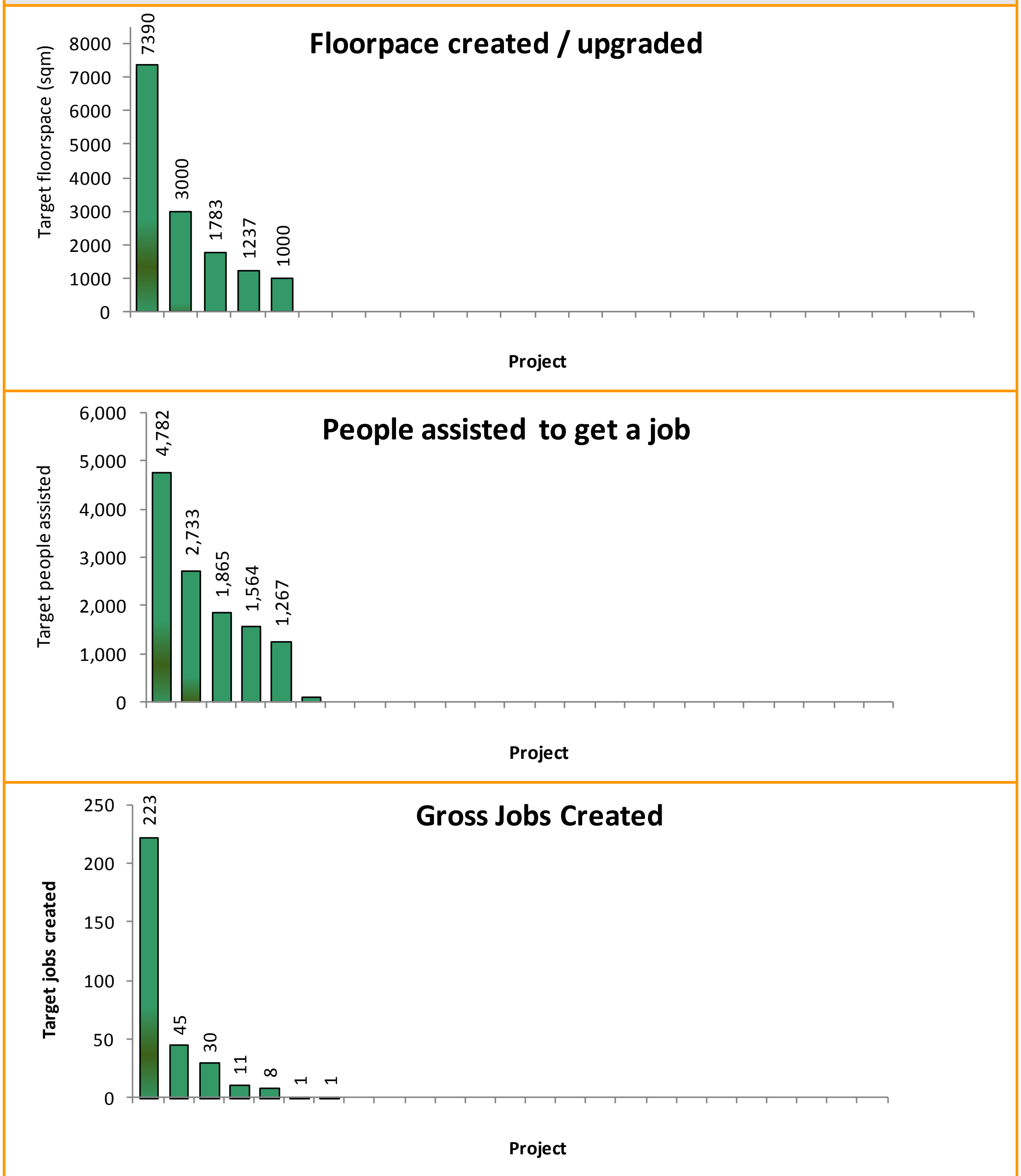
- **Brownfield land -** Based on current committed projects, this analysis also shows that P3 is likely to exceed its brownfield land output target (10 Ha) if projects deliver. However, we do believe that a higher target could have been set for this particular output given the challenges faced within the package areas and the need to bring land into new employment generating uses. It is understood that one project coming forward at full application stage for the Birmingham package (Tyseley – whose outputs are not recorded in the May 2011 dataset) has the potential to deliver 10.9Ha of redeveloped brownfield land, and delivery of this volume of land would enable the Programme to exceed its target for this indicator.

6.28 The analysis of committed projects or projects at the full application stage also shows that the jobs created result (1,000 jobs) will be met. However, meeting this result target is predicated on the successful translation of inward investment activity in both the Birmingham City Region and North Staffordshire to actual jobs (approximately 75% of the jobs identified in this analysis). Given the long-term nature of inward investment activity, there is no guarantee at present that this will occur.

6.29 While the analysis shows that these targets and results have been met by projects if they contracted, it is clear that the impact of a few projects at the mid-point of the Programme has been significant. This suggests that these targets, and others (including leverage and people assisted to get a job), could have been more stretching for P3.

6.30 Based on current projects at the committed or full application stage in the May 2011 dataset (**although we do have some concerns that not all of the output and result data has been captured in the management information system**) Priority 3 is unlikely to meet its floorspace created and BREEAM floorspace output targets. While our analysis of projects in the pipeline (see later) will highlight some projects which aim to deliver floorspace (potentially an additional 30,000 sqm), the target is still unlikely to be met even if these projects to come forward. There is some potential for the Programme to capture floorspace developed through capital investments in Priority 1, Portfolio 4 (demonstrators) but it is not clear at this juncture that this would enable the Programme as a whole to meet its floorspace development target.

Figure 6-7: Distribution of targets for key indicators (Committed projects May, 2011)



Source: Programme monitoring data

Assessment of Priority 3 Investments

Key Delivery Factors

6.31 The rationale for Priority is aligned with AWM's priorities on economic development and regeneration in the region's core urban areas, but it strongly reflected the priorities and strategies of the local authority partners who played the critical role in drafting Priority 3 in the Operational Programme. Local authorities and sub-regional partners have had the central role in managing package areas, developing package plans, as well as in the development of projects. This partnership is also central to the Priority Working Group for

Priority 3 which has assisted with the strategic oversight of activity in this area. The evaluation has identified the following key factors that have shaped the delivery of Priority 3.

The recession has significantly affected the viability of land & property investments, as well as the approach taken to tackling worklessness...

6.32 The impact of the recession on projects within the package areas should not be under-estimated. While the recession has affected the Programme as a whole, the effects have been felt hard in P3 land and property projects as occupier demand has reduced, values have fallen, and the ability to secure development finance worsened. The recession also affected the strategy and approach taken by package areas to issues such as worklessness and recession support. This in turn has affected timescales and resourcing.

Loss of Single Programme and other match funding...

6.33 The public sector match funding environment significantly worsened over the Programme period. AWM Single Programme funding reduced in the first instance in 2009, and then was removed completely in 2010. Projects which were reliant on this funding were affected considerably by this loss. Many projects were withdrawn at this stage to seek alternative match funding sources, or withdrawn altogether from the process if funding could not be sourced. These changes in match funding have been a significant barrier to project delivery for P3, exacerbated by cuts to other sources of match (eg. Working Neighbourhoods Fund).

AWM processes and appraisal requirements

6.34 The project development and appraisal process was considered by some P3 consultees as being particularly demanding in the early part of the Programme. The level of evidential detail required, as well as timelines for resolving issues caused, at times, some frustration amongst partners. A single application process was developed as the result of Single Programme and ERDF alignment. However, if AWM funding was not being sought, all projects were still required to undergo the same process. An earlier emphasis on estimating GVA impacts at the Agency led to some projects being delayed at this stage.

Capacity to deal with applications

6.35 There were perceived to be pinch points at times within the European Programme Management Team for projects to be assigned a sponsor and in the appraisal of the projects. However, this situation improved with additional resources drawn in at sponsor and appraiser levels. Given the progress made by most packages in the last 6-12 months in developing their plans, there is some concern that delays may resurface as packages submit project applications, with time pressures mounting for the Priority for spending. In the short term the role of the package manager will be critical to ensuring that the current pipeline translates into eligible and deliverable projects.

Shortcomings in project applications

6.36 In the early part of the Programme, package managers submitted a significant number of applications which were not eligible. This was particularly an issue for projects which generated a revenue stream (e.g. rental income for Land and Property schemes) due to

Article 55 restrictions. It also reflected policy priorities. For example, there was emphasis on the need to generate GVA impacts, and a lack of policy preference for public realm projects.

6.37 The EPMT also rejected a number of applications as many were not developed to the necessary quality for full appraisal. Since this occurred, there has been a greater emphasis on the package manager to work closely with the applicant, and to ensure that applications meet the quality threshold for appraisal.

6.38 Regional partners were involved in developing/reviewing the Operational Programme, and the changes between this Programme and the previous one. Therefore, it is not clear from our consultations why eligibility issues for some project applications become such as issue in the early years of the Programme. While there were some delays in CLG/EPMT clarifications on some eligibility matters, consultations indicate that in some packages, at times, there was a disconnect between those with the technical/bid writing ERDF knowledge and those developing the actual bids.

Assessment of Priority 3 Investment Fit and Pipeline

6.39 The following investment fit and gap analysis has been prepared following a review of projects at the contracted and delivery stage, as recorded in the May 2011 data. The analysis of the strength of the pipeline is based upon a review of those projects at the **full application stage**. The May 2011 data had very little useful project data available for those projects at the pre-full application stage. However, following further discussions with the EPMT, a review of a sample of pipeline projects follows this section, to provide a clearer understanding of the pipeline of P3 activity coming forward.

6.40 It should be noted that while the Operational Programme identifies the three portfolios, and package managers attempt to bring projects forward under these areas, there is little reference to the portfolios in the management information. Packages are not tasked with providing portfolio-related updates. As such, Regeneris Consulting has attempted to categorise the projects by portfolio based upon the available project information.

Key Points

6.41 Based on those projects contracted or in delivery:

- There are 20 projects at this stage (25 if package management projects are included).
- Almost half of these projects are focussed on the employment creation actions portfolio.
- The following types of activities have been supported:
  - A number of public realm projects are already in delivery, or have been contracted, in most of the package areas.
  - There has also been investment supporting the establishment of building improvement grants and gap funding projects for sites.

  - Inward investment activity in North Staffordshire has also been supported.

- Projects which support the community innovations actions portfolio account for the remaining projects at the delivery or contracted stage. The focus of investments has largely been on tackling worklessness, removing transport barriers, accessibility issues, brokerage and liaison services.

6.42 The strength of the pipeline (i.e. those projects at the full application stage) has also been assessed (an assessment of the pipeline of projects prior to this stage follows later in this section):

- There is a continuation of projects coming forward in package areas under the employment creation actions portfolio which seek to deliver public realm and infrastructure projects. Some projects also support the restoration and re-use of buildings to deliver new or upgraded floorspace, or are projects to develop sites.

- Package areas are still bringing forward projects under the community innovation actions portfolio. These projects are tackling digital exclusion, transport barriers, and worklessness amongst hard to reach groups.

- The Birmingham City Region inward investment project is also in development, and is bring brought forward under the wider employment and community actions portfolio.

Table 6-7: Summary Assessment of Priority Investments and Pipeline by Portfolio (May 2011)		
Portfolio	**Investment Fit and Gaps(based on contracted projects or those in delivery)**	**Strength of Pipeline (based on those projects at full application stage)**
Employment Creation Actions	• Excluding the delivery of package management projects (5), there are 20 projects at the contracted and delivery stage (11 in delivery). Of these 20 projects almost half (9 projects) can be classified as employment creation actions. • However, while there is fit with the portfolio, the projects identified do very little directly to addressing actual job creation. They do play an important role though in challenging some of the physical barriers to employment creation in these areas. • Many of these projects are focussed on improving the environment and image of locations through **public realm improvements** in the package areas (e.g. Golden Square in Birmingham, Coventry City Centre, West Bromwich town centre, Stoke), **building improvement/restoration grants** (e.g. Tyseley, Burslem). North Staffordshire's **inward investment** project activity is also included here.	• There are a number of projects coming forward with full applications which have a focus on the employment creation portfolio. • Many of these projects seek to support investments in **public realm and infrastructure**, as well as **restoration and re-use of buildings** to deliver new or upgraded floorspace. • While these projects will contribute towards some P3 outputs on floorspace and land, there are few projects which directly lead to employment.
Community Innovation Actions	• Projects which focus on Community Innovation Actions account for most of the remaining projects at contracted or delivery stage. • Most packages have at least one project at contract or delivery stage focussing on activity within this portfolio (e.g. **tackling worklessness, transport barriers, accessibility, brokerage and liaison services**). • Some packages have focussed on these types of projects more than other packages. These projects account for most project activity within North Solihull and North Black Country (a focus on hard to reach groups, removing transport barriers and improving accessibility to employment and training opportunities).	• Across the package areas there are a small number of projects (3) currently coming forward which meet this portfolio area. • These projects support: **digital exclusion** issues, **transport barriers** and **hard to reach groups** (South Black Country); **an employment and skills service** (Wolverhampton); and **access to key employment sites** (Coventry and Nuneaton). • These actions cover a wide range of the indicative actions identified in the Operational Programme.
Wider Employment & Community Actions	• There has been no activity contracted or in delivery which could be considered as contributing to this portfolio.	• The Birmingham City Region inward investment project, which four packages are supporting, matches this portfolio. The applicant estimates that 500 new jobs could be created in the city region as a result of this activity.

Further Pipeline Analysis

6.43 The May 2011 dataset had little information about projects coming forward in the pipeline i.e. those coming forward towards the outline stage. Information about these projects is important in understanding the indicative level of resource which has was being sought at this level by packages. To understand this in more detail the evaluation reviewed the ERDF EPMT's Pipeline Manager Tool, and where possible some early application drafts. This tool is used by members of the team to track pipeline projects across the Programme. However, the list for Priority 3 is not comprehensive as it relies on package managers informing the EPMT of projects coming forward. Not all packages do this systematically, although there are regular meetings between the Priority 3 manager and the package managers to assess progress against N+2 targets and their individual package allocations.

6.44 Of those projects reviewed it is clear that applicants are bringing forward similar types of projects as already seen across the Priority.

- Investment in road infrastructure in Castle Hill linked to the Zoo – this £4.5m project, although listed in the May 2011 dataset as at full applications, did not have any funding or outputs associated it. Therefore the current analysis underestimates Priority 3's potential performance. This project aims to support 46 jobs and develop 5Ha of land. Additional private sector funding is available from the Zoo, with the local authority also committed to funding the project.

- Investment in the development of enterprise space in Birmingham – this £3m project was listed in the May 2011 dataset for funding, but no outputs were provided. This project essentially gap funds the development of this enterprise space. The project aims to deliver 20,000 sqm of floorspace, support 420 jobs and leverage £7m of investment. However, the project will be dependent on identified private sector match materialising.

- Investment in the development of enterprise space at Middleport Pottery in North Staffordshire. This project seeks £1m of investment to develop creative enterprise space within the old pottery building. The project has already secured funding support from RGF and the Princes' Trust. The project aims to deliver 3,000 sqm of floorspace and support 40 jobs.

- Investment in Birmingham's Big City Creative quarters plan. This project aims to secure £4.8m of ERDF to fund gap funding of sites, as well as provide building refurbishment grants. This 'mini-programme' of activity will be largely dependent on identified demand materialising and associated private sector funding support. The project would deliver approximately 10,000 sqm of floorspace.

6.45 This review of a sample of projects has shown that packages are bringing forward a similar suite of projects, largely focussed on capital investments in buildings, sites, and infrastructure (most public realm activity has already been brought forward by packages). If these projects did proceed to contract there is the potential for a further 33,000 sqm of floorspace to be delivered. While this would contribute significantly towards the overall floorspace target, P3 would still be considerably short of the original target (100,000 sqm).

6.46 However, the main risk to the deliverability of some of these projects will be whether private sector support materialises within those areas which are promoting the gap funding of sites, and/or grant support to refurbish buildings. Clearly while funding can be committed to these types of projects, there is a risk that defrayal does not happen at the required rate, and the project under-spends.

Conclusions

6.47 The following conclusions have been drawn on the performance and progress of Priority 3 thus far:

- Priority 3 was developed with a focus on delivering sustainable urban development in identified package areas where need was greatest. The breadth of activities supported in the priority, as outlined in the Operational Programme, provided packages with the flexibility to develop a suite of complementary projects. However, although this flexibility was welcomed by partners, its breadth also gave rise to project eligibility issues and projects coming forward which were better suited to Priority 1 or 2. While many of these issues have now been resolved, the Priority would have benefited from a greater level of specificity and clarity. This may have helped to avoid some of the delays and required clarifications experienced in the early years of the Programme.

- The strategy for Priority 3 investment in package areas was based on focussing ERDF resource in the areas where there was greatest need. This was in line with AWM's urban Regeneration Zone policy. However, we do acknowledge the recent representations made by some areas outside of the PUA, such as Telford & Wrekin and Shropshire, who have suitable Priority 3 type projects, and who have made a case for ERDF support backed by evidence of the effects of recession on key economic indicators (eg. rising unemployment levels). Nevertheless, while these other areas do face particular challenges, the focus within the OP has always been on those areas in greatest economic and social need within the PUA. Given the progress made in the last year by some packages in developing their pipeline of projects, we believe, at this juncture, that this approach remains relevant. However, this position will need to be revisited if further progress is not achieved by packages in the next year (see recommendations below).

- Priority 3's performance in terms of defrayed expenditure has been particularly weak, and remains relatively low in comparison to other priorities. However, following progress in recent months, approximately 10% of P3's allocation is now in delivery, with a further 20% at contract stage. A further third of the allocation is linked to projects at the full application stage. As already identified, there have been some factors which have affected the pace of delivery within P3 – with the recession being a key external factor. However, the packages and the Programme have recognised a critical need to achieve a step change in the rate at which ERDF is being spent.

- Given the apparent robustness of the processes now in place to assess these projects, and with a low project drop-out rate more generally across the Programme, there appear to be reasonable prospects of converting pipeline projects into commitments. However, there are some caveats here. Approximately £9m of committed funding identified at the full application stage is linked to projects which are dependent on private sector demand materialising (e.g. building restoration grants, redevelopment of sites). Given the challenging economic conditions, there could be potential for further defrayal slippage if demand does not materialise. This should be monitored closely both by packages and the EPMT.

- While there has been some positive progress in recent months for P3, the value of projects at the committed or full application stage does vary across the package areas and their performance has been far from uniform. Some packages are closer to their allocation levels than others, some having an element of over-programming (e.g. Birmingham), while other areas have a considerable distance to travel to meet their package allocation (e.g. North Black Country). This must be regarded as a risk to ability of Priority 3 to commit and spend its full allocation by the conclusion of the Programme.

- Match funding has been a major issue for Priority 3 as it has elsewhere in the Programme. Many projects were severely constrained by the removal of Single Programme funding by AWM. The removal of this funding, firstly in part in 2009 and then fully in 2010, led to some significant delays for some projects as new match was sought. In some instances this led to the complete withdrawal of the project. The inclusion of private sector match funding has been a welcome move (in particular for bringing forward match for land & property projects). However, given the compliance issues surrounding ERDF, as well as market conditions, this has not translated into a clear uplift in projects coming forward.

- Of those projects at contract or delivery stage, and those at full application, our analysis indicates that there has been a relatively strong fit with the indicative activity highlighted within the Operational Programme, although perhaps with a lack of focus on activity creating direct economic benefits.

  - For the employment creation portfolio there has been a number of projects which have supported public realm activity and others which will support building restoration/refurbishments, gap funding of sites, and the development of infrastructure. However, the progress made to date in terms of Priority 3's floorspace target suggests significantly more needs to be done.

  - The community innovation portfolio packages have, to varying extents, funded projects which tackle worklessness, transport barriers, accessibility, and the provision of employment brokerage and liaison services. While the spirit of P3 is focussed on bringing forward complementary projects within package areas, due to timing issues, a greater emphasis will be required in some package areas of linking these types of activities to those being brought forward under the employment creation portfolio, to maximise the impact of both.

  - For wider employment and community actions, the development of the Birmingham City Region inward investment project meets the indicative action as set out in the Operational Programme.

- While these projects do have a strong fit with the OP, it is not clear whether the impact from these investments will be tangible in the longer term. The amount of public realm activity supported across all of the package areas is one area of concern (£8.9m at the contracted stage and £5m at the committed stage), given that the under-pinning rationale is to support/create the conditions for economic growth. While this provides tangible change in these localities, it is not clear whether, in all areas, this investment will actually provide the tipping point to encourage investment.

- While the majority of Priority 3 funding is identified for employment creating actions and community innovation actions, most of the activities it supports only have the potential to lead to job creation further down the line (eg. worklessness activities, new floorspace, improved public realm and infrastructure). As these jobs are not measured, the jobs created target is relatively low (approximately 10% of the whole Programme). It is anticipated that this target will largely be met through inward investment projects. Given the uncertainty over inward investment activity more generally in the current economic climate, the evaluation suggests that this target should be monitored closely throughout the remainder of the Programme period.

- Under the community innovation actions portfolio there was a period where greater clarity and guidance would have been beneficial for applicants/packages developing worklessness projects. The Operational Programme could have articulated more clearly a series of indicative eligible activities for addressing worklessness. Several packages noted that they faced delays as projects awaited eligibility decisions.

- Linked to the worklessness theme, there is no evidence to indicate that ERDF activities were aligned with ESF funded activities in package areas. While in practice this can be difficult to achieve, the recent changes to the ESF programme (i.e. on its focus and target groups) suggest that this is unlikely to materialise over the rest of the Programme period. While this may have had less relevance at the outset of the Programme for partners in package areas, the end of Working Neighbourhood Funding and the constraints on local authority mainstream resources may mean that there is now a greater incentive to align activity, but with less scope to do so.

- Some outputs and results targets appear conservative in light of the level of investment allocated to the Priority. The quantification of the targets may have under scoped the potential of what could be achieved by P3 package areas. Some targets such as leverage and people assisted into jobs are likely to be significantly exceeded as projects deliver over the remainder of the Programme period. However, given the economic climate surrounding the delivery of Priority 3, as well as Article 55 restrictions, floorspace targets, including BREEAM floorspace, are unlikely to be met through the current projects brought forward by packages. While the pipeline indicates some further potential progress for this target and it may be possible for Priority 1 (Portfolio 4) to contribute at Programme level, this is not guaranteed and partners need to consider this target.

- Our analysis of the May 2011 dataset showed that there was approximately £31.5m of projects at the full application stage. We are aware that since this data was issued the *Investing in the City Region* inward investment project has been approved (£8m).

As such £23.5m of project funding now remains tied to projects in the full application stage. From undertaking a headline review of the projects at this stage, and risks around deliverability and match funding, we estimate that upwards of 25% of this spend (or £6m) has the potential to drop-out, leaving just under £18m going forward at this stage. Nonetheless, taking into consideration our assessment of the risk of projects at the full application stage, we estimate that there is the potential for just over £22m to remain unallocated in P3 (£16m package headroom and £6m which could potentially fall away from projects at the full application stage). This does not take into account any of the gains from exchange rate changes.

- Due to currency exchange rate changes, the total value of Priority 3 has risen to £90.6m. With packages allocated a total of £82.5m, there is approximately £8.1m left outside of the packages to be spent in P3. While it should be noted that this exchange rate gain is likely to fluctuate given volatility in international currency markets, the recommendations below consider how this gain might be used. Any decision on its use will also be subject to further discussions with CLG.

Recommendations

6.48 While there is a need to ensure that expenditure levels improve across the Priority 3, it is important to ensure that it invests in quality projects which make a substantive and sustainable difference to the economic prospects in the package areas. Importantly, these investments should ideally also seek to address outputs and results which the Priority is currently lagging behind with, particularly floorspace. There has been rapid progress in Priority 3 in the last year in terms of project development and project approvals. Given the rapidly changing situation, this creates some uncertainties in developing recommendations, especially in relation to timing. The main uncertainties and timing issues surrounding the future development of Priority 3 are as follows:

- There is a large near approval and early pipeline of projects in many package areas. We have assessed the likelihood of these different elements of the future pipeline proceeding and the potential impacts it may deliver, but there are significant uncertainties on the extent to which these projects will gain approval.

- As with other Priorities, there is uncertainty over the status of the current exchange rate fluctuation gain (£8m), how far it is likely to change as the Euro:Sterling exchange rate varies, and whether DCLG will allow this to be committed at this stage. This sum lies outside the agreed package allocations.

- The scale of resources available and the future decisions to be made are highly contingent on whether the proposed establishment of a JESSICA fund proceeds or not. The potential for a JESSICA fund is likely to be clearer by the end of July (when a viable match funding proposition and delivery mechanism will need to be demonstrated).

6.49 Some of the recommendations set out here are therefore contingent on these timing issues, and reflect these uncertainties.

Retain current broad P3 strategy and allocation

6.50 There has been no fundamental change in the nature and geographical focus of economic need in the region since 2007 and 2008. Indeed, the scale of economic challenges in the PUA has, in absolute terms, worsened over the last four years. The strategy of delivering sustainable economic development within areas of economic need is still relevant. We recommend therefore that:

- The Programme retains its strategy of focussing on the current chosen spatial areas within the region.
- There is no change to the list of indicative actions (but note Recommendation 2 below).
- There is not a strong case at this stage, given evidence of the progress made in the last year, for reducing the overall allocation of resources to Priority 3.

6.51 At this juncture we do not recommend widening P3 interventions to other areas outside of the PUA. We acknowledge that some areas (particularly Telford & Wrekin and Shropshire) have made strong representations to expand the focus of P3 to fund projects which in their view would meet the funding criteria. However, it is our reasoned judgement, at this time, that there appear to be sufficient projects (with or without JESSICA) coming through within package areas. The design of the Programme was intended to target resources on a small number of tightly defined geographical areas, and any move to significantly widen this focus might also risk spreading limited resources too thinly.

6.52 We therefore do not recommend changes to the spatial focus, or any virement of resources out of P3 at this stage. However, this recommendation is heavily contingent on: (a) the progress made by packages in the next 3-5 months on further funding commitments and critically expenditure; (b) whether or not JESSICA progresses; and (c) what happens to the unallocated exchange rate gain. At this stage in the Programme's life, the demand for ERDF grant needs to be met within the Priority although any potential need for further resource might be considered as part of about unallocated resources across the Programme as a whole.

Focus remaining P3 resources on projects which generate the greatest economic impact, with a particularly focus on employment floorspace

6.53 There is now a strong case for ensuring a focus on approving projects that deliver economic and floorspace outputs from the remaining uncommitted resources. This is challenging, since there is clear tension between the devolved approach set out in the Operational Programme (through the development of packages and the determination of local priorities), and the needs of the Programme (the centre) to ensure that progress is made on the delivery of outputs, impacts and results. In part, this tension reflects the lack of specific outputs and results apportioned to each package on the basis of their funding allocation. While some packages may have attempted to adhere to an identified share of output and results, this has not been consistently implemented or monitored.

6.54 Nevertheless, the Priority is clearly significantly short of where it needs to be in relation to output performance which delivers the greatest economic impacts. This reinforces the need for a rebalancing of activity and the outputs/results it achieves. The evaluation identifies two broad options to address this:

- First, the LMC with the EPMT and partners could simply encourage the development of projects in package areas which will deliver greater economic impact and employment floorspace.

- Second, a more direct approach would involve the project appraisal process. The EPMT could apply a stronger weighting which favours those projects which contribute more towards the delivery of Priority 3's economic outputs. For instance an output benchmark could be set for future appraised projects which would enable the Programme to better understand what outputs are actually being purchased.

6.55 We do recognise that there is a danger in a purely "output purchasing" approach. Some projects that could be or are already being funded will contribute towards some employment creation in the longer-term, or may indirectly stimulate further investment in floorspace (e.g. public realm). However, if a JESSICA project did come forward it could contribute significantly to P3's floorspace targets and reduce the pressure on meeting output targets.

If deliverable, we support the development of a JESSICA scheme

6.56 The development of a regional JESSICA fund is a high risk/high reward strategy for the ERDF Programme at this juncture. A decision on whether this project will proceed will need to be taken almost immediately a contract in place by the end of 2011 at the latest and ideally by November. This leaves a relatively short period of time for actual project delivery. The scheme would have some clear benefits for the Programme by:

- Increasing both contracted and defrayed expenditure

- Contributing towards floorspace targets and to longer run economic impact

- Being an evergreen fund where the returns from the project can be recycled in the future to the region post-2015.

6.57 There would also be some major risks however if the project failed to be approved. The most significant of these would be the non-commitment of a substantial level of funding, as well as the major gap it would leave in progress on Priority 3's key outputs.

6.58 Whilst £20m of match funding is required for the project, a key hurdle to overcome is in identifying where the ERDF funding can be drawn from. At present we know that:

- £8m of P3 funding remains uncommitted as a result of a currency exchange rate gain (however it is not clear how DCLG will allow the EPMT to utilise this, if at all). There is also potential for this gain to be reversed if the Euro weakens against Sterling over the remainder of the Programme.

- There is potentially £4m available from the closure of Priority 4. However, this funding would be subject to EC approval where it can be demonstrated that there is significant need for this to be vired to P3. Given the levels of headroom within P3, this could prove a difficult argument to make, and there are potential calls on Priority 4 resources from elsewhere in the Programme including Priorities 1, 2 and 5.

- The £7.8m representing the value of Priority 1 and 2 projects brought forward by the packages, and which has remained as part of the overall Priority 3 allocation.

6.59 If these sources of package headroom are unavailable then, even if all available Priority 4 funding is vired to Priority 3, £16m would still be required to fund the ERDF contribution. Any further contributions towards funding JESSICA could only be brought forward from the existing package allocations. An agreed mechanism will be required to do this.

6.60 We recommend that the approach to "top-slicing" taken reflects the level of performance on committed funding in each package. At a chosen point in the near future (potentially by the end of November) the EPMT would assess each package's contracted resources. Any contribution to funding JESSICA would be pro rata to each package's share of overall uncommitted expenditure (i.e. resources that have not received full approval). Partners would also need to consider how to deal with those packages which might choose not to participate in a JESSICA project. It will be important that the LMC reach early agreement on this or similar approaches to addressing these issues if a decision is taken to proceed with a JESSICA project.

Need to ensure that there is sufficient capacity at the project development stage amongst partners to ensure that they meet the rates of contracting and spend required

6.61 Currently package management is only funded until the end of December 2011. At present package managers have been taking on more responsibility for ensuring that applications are to the required standards in light of the changes which have occurred with the loss of capacity via AWM staff. However, there is still considerable work to be done to bring good quality projects through the Priority 3 pipeline, into the system and spending ERDF over the next 6-12 months.

6.62 These pressures are present at a time when the transition of Programme management to CLG, cuts in public sector funding and a squeeze on the resources of partner organisations means that ERDF capacity in the West Midlands has been reduced. The Programme could continue with package management for a further period, but would need to ensure updated terms of reference regarding focus and role, reflecting the need for managers (and colleagues) to be the main source of project development support for applicants. Precisely how best to provide the resources for and deliver the capacity to develop and coordinate project activity in Priority 3 going forward should now be a key issue for the LMC to resolve.

Enhance performance management at both the package and project level

6.63 Time is running out for P3 to improve the required level of commitments made across the package areas (up to December 2013), while the level of defrayment across Priority 3 has been particularly weak (with a final spend date of December 2015). With this in mind, a move to improve contracting and expenditure performance across the Priority should be underpinned by the implementation of performance management measures. It is understood that N+2 style targets are in already in place for both and these need to be fully operationalised for:

- (a) The package level in respect of expenditure commitments
- (b) The project level in respect of actual defrayment.

6.64 Subject to the agreement of the LMC, these targets should be applied for December 2011 and December 2012 for both packages and projects. At the project level there should be consideration given to the fact that some capital projects may not spend at the agreed rate due to a number of reasons. However, once commenced, expenditure is most likely to occur before the end of the Programme. This target will have a greater impact where spend has been committed to projects which are essentially 'mini-programmes' of activity, and where little defrayment is actually taking place. These types of programmes (eg. gap funding of sites, grants for buildings) are typically dependent on external factors such as demand from the private sector, and could pose a further risk to Priority 3 actually spending its allocation.

6.65 Should the performance of the packages be assessed as having failed to meet targets the following measures could be applied:

- At the package level if there is under-commitment compared with the agreed targets, this resource would be removed from the package and placed in a centralised pool.
- This pool of funding could be allocated to an open call for Priority 3 across the packages or the whole of the PUA. This would provide an opportunity to free up resource for areas that had fully or near fully committed their resource, or enable projects to be supported outside of the package areas. It would also provide an opportunity to any successful mini-programme projects to top-up their funding if required.
- At the project level a similar process would also apply, with under-spend removed from the project and placed in a centralised pool.
- The scale of resources which may become available through this annual central pool will be largely dependent on the outcome of whether a JESSICA scheme happens.

6.66 This performance management approach is summarised in Table 6-8 below.

Table 6-8: Implementation of Performance Management at the Package and Project level		
	December 2011	**December 2012**
N+2 targets set for Package expenditure commitments	If the commitments within the package are below the set target then the under-commitment is removed from the package and placed into a ring-fenced pool for that year. Package ➲ Pool	If the commitments within the package are below the set target then the under-commitment is removed from the package and placed into a ring-fenced pool for that year. Package ➲ Pool
N+2 targets set for project level expenditure (particularly mini-programme type projects).	If project spend for mini-programme projects is below the set target then the under-spend is removed and placed into a ring-fenced pool for that year. Project ➲ Pool	If project spend for mini-programme projects is below the set target then the under-spend is removed and placed into a ring-fenced pool for that year. Project ➲ Pool
Source: Regeneris Consulting		

Use open calls to spend the resource within the centralised pool in package areas and across the wider PUA

6.67 Given the implementation of the enhanced performance management regime described in recommendation 5 above, a centralised pool of Priority 3 resources for re-use might be developed. This pool would draw resources from those packages with significant under-commitment and/or under-spend after a given date each year (December). We recommend that the EPMT implements an open call process across the PUA to generate interest in bringing forward projects which are eligible for this resource.

6.68 This pool would be open to those packages that have committed much of their resource already, but which require additional resources for further projects (or to supplement existing projects). It could also be open to project applications within the wider PUA. While outside of the package areas, applications would come forward from within the urban area, and still be focussed on tackling issues identified within the OP. These applications would therefore still be within the spirit of the Operational Programme. However, a potential downside to this approach is the capacity of the EPMT to administer this call. While open calls have been administered in other priorities, a decision would need to be taken on whether the EPMT would have the ability to take this forward.

6.69 Finally, depending on the progress made in committing this centralised pool to projects within the PUA, as well as timing issues (running up to December 2013) and the requirements of seeking a change in the OP from the Commission, there could be a case to further widen access to all central pools to all areas across the region in urban areas with evidence of need which lie outside of the PUA. As the socio-economic data suggest (see for example Table 2-6), there are areas of the West Midlands which have seen falls in employment rates, rises in claimant count rates and recession related deterioration on other key indicators that are on a par with Priority 3 target areas.

Revise the outputs and results framework

6.70 We have reviewed the outputs and results framework in the light of progress and the challenges faced by the Programme. The performance against the original targets has been patchy. The key reasons for poor progress on floorspace outputs, relate to the recession and the particular impact on the property market as well as difficulties applicants have found with conforming to Article 55 regulations for capital projects.

6.71 In light of our knowledge of those projects within packages coming through the appraisal system, as well as those coming through the pipeline, we recommend that the EPMT explores with the Commission the following changes:

- Reduce the floorspace output target by up to 25% (to c.75,000 sqm). Given what has been already contracted, the past/current economic climate and potential for future projects, we would see this as a more realistic target for the Priority. While the implementation of JESSICA could result in further floorspace outputs being achieved, at present the Priority is at risk from significantly under-performing against this target. The scale of the reduction in the target will need to be rigorously tested in light of the pipeline, the manner in which the headroom is expected to be used, the performance of projects in delivery and any decision on whether to increase the reporting of floorspace developed through Priority 1 projects.

- Reduce the BREEAM floorspace target given that P3 is unlikely to meet this target, subject to the decision on JESSICA and the reduction for the general floorspace target. Again, in considering how far to reduce the target across the Programme, partners will need to take account of any potential for Priority 1 capital projects to report the delivery of BREEAM floorspace.

- Significantly reduce the output target level for businesses assisted to improve performance. The types of projects which deliver this type of output are now more likely to come forward under Priority 2 activity.

7. Review of Priority Four

Priority 4 Strategy and Objectives

7.1 The West Midlands is unusual amongst the English regions in having a specific Priority and a related funding allocation for inter-regional activity. In many regions, provision for this type of activity is embedded in other priorities. The purposes of a stand-alone Priority 4 were to offer opportunities to partners to engage in collaborative activity with other EU regions in support of WMOP objectives. P4 sought to encourage lesson learning, the adoption of best practice from other locations and a better understanding within the region of how to access other transnational and EU funding streams.

7.2 The ex-ante evaluation of the WMOP stressed the need for P4 to be clear and specific about the types of actions it would fund, and the drafting team sought to achieve this by linking it to Priorities 1 to 3. However, these links appear weak in the strategy in practice and it is not clear how the indicative activities identified would contribute to the Programme's headline objectives including the creation of new businesses and jobs, and the development of a more competitive and innovative regional economy.

Portfolios

7.3 The Programme allocated a total of £5.3 million to P4 across the portfolios described in Table 7-1 below. The total allocation to Priority 4 represented only 2% of the overall Programme.

Table 7-1: Priority 4 Activities

Portfolio	Indicative Actions	Total Allocation (£m)*	% of Priority 4
Priority 1	• Placements in businesses and study placements with organisations involved in innovation, clusters etc. • Lesson learning on HEI technology transfer through collaborative networks • Collaborations with EU technology platforms	£2.13m	40%
Priority 2	• Inter-regional study groups on access to finance • Actions to promote the benefits of international trade • Models of innovation to encourage diversification and research into new technologies for SMEs • Approaches to cluster management	£1.87m	35%
Priority 3	• Wide range of collaboration on P3 related activities including urban governance, resource efficiency, energy useage, transport, culture, heritage, sport and financial mechanisms for development	£1.07m	20%
Cross cutting activities	• Cross Priority and cross Programme activities	£0.27m	5%
*based on €1=£0.89			

7.4 Unlike the main Priorities, no socio-economic rationale for P4 was presented in the WMOP. Instead, the need to improve strategy and delivery by learning lessons from elsewhere and to benefit from the West Midlands constructive approach to the engagement with the EU drove its inclusion in the Programme. This is also an area of activity promoted by the European Commission (eg. through the Regions for Economic Change initiative).

Delivery Approach

7.5 The key to delivering Priority 4 was to ensure that early links were made to the activities being undertaken by the three main Programme Priorities. The expectation was that organisations leading on the development of projects elsewhere in the Programme would seek to draw on Priority 4 funds to provide a transnational dimension to their project, in particular drawing on best practice lessons for elsewhere and enabling the West Midlands to benefit from engaging with organisations in other EU regions (eg. HEI institutions).

Outputs and Results Targets

7.6 The key targets for Priority 4 are summarised in Table 7-2 below.

Table 7-2: Overview of Priority 4 targets and allocations

	Indicator	Total	% of Overall Programme
Spend	**Total Allocation**	**£5.3**	2%
Outputs	No. of participants, schemes etc.	350	100%
Results	No. of best practice implementations	15	100%
	No. of new networks established	5	100%

Source: Programme monitoring data

Priority 4 Progress

7.7 Summary information on Priority 4 investments is provided in Table 7-3 below.

Table 7-3: Priority 4 Investment Summary

	Number	Value
Priority Allocation		£5.3 million
Completed projects	0	£0.0
Contracted to date	7	£0.9
No. of projects at full application *	0	-
No. of projects at outline application	0	-

Source: programme monitoring data

* Includes projects that have been approved but are not yet contracted.

7.8 The majority of projects (4) were the result of open bidding, with three projects originating from applicants involved in projects in Priorities 1 and 2. Two projects resulted from non-competitive selections, with AWM seeking to build transnational links with other cluster organisations in a Priority 1 project, and to reinforce inward investment activity through a Priority 2 project. Another project resulted from a commissioning exercise, with Birmingham City University having applied for Priority 2 and 4 funding to support its Interiors and Lifestyles cluster project.

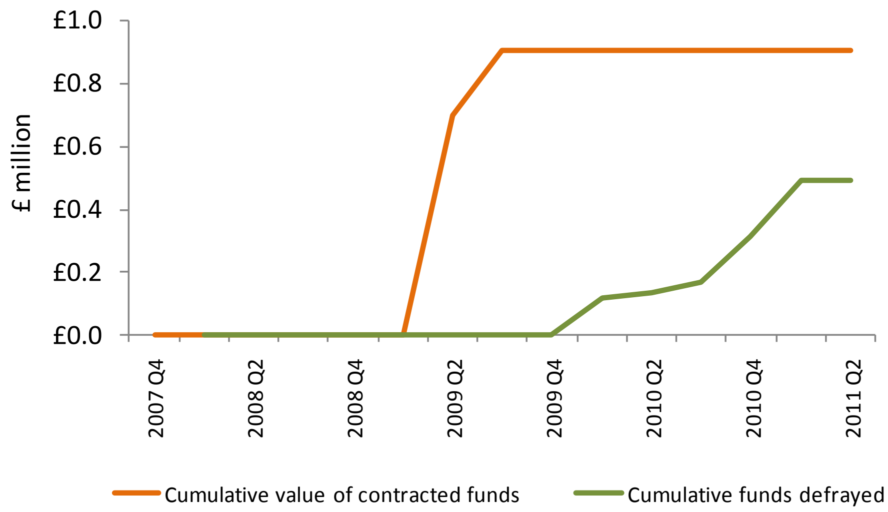
7.9 At the end of May 2011, defrayed expenditure in Priority 4 stood at just under £0.5 million, representing around 9% of the total allocation for the Priority. The projects currently in delivery in Priority 4 account for all the commitments to date, with the total commitment of £0.9 million representing around 17% of the overall allocation. Figure 7-1 summarises progress on Priority 4 expenditure, breaking this down by projects linked to Priority 1 and 2 in line with the investment strategy.

Figure 7-1: Priority 4 Expenditure and Commitments

Source: Programme monitoring data

7.10 As Figure 7-2 shows, the Programme's contracts for Priority 4 projects took off in the first half of 2009 with new activity having ceased from the middle of 2009.

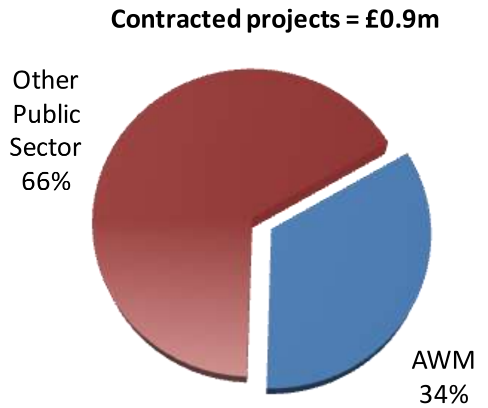
Figure 7-2: Contracting overview



Source: Programme monitoring data

7.11 As Figure 7-3 shows, Priority 4 was wholly dependent on public sector match funding, with Single Programme funds accounting for 33% of all match for contracted projects, and partners including local authorities and universities having also contributed match investment.

Figure 7-3: Summary of match funding

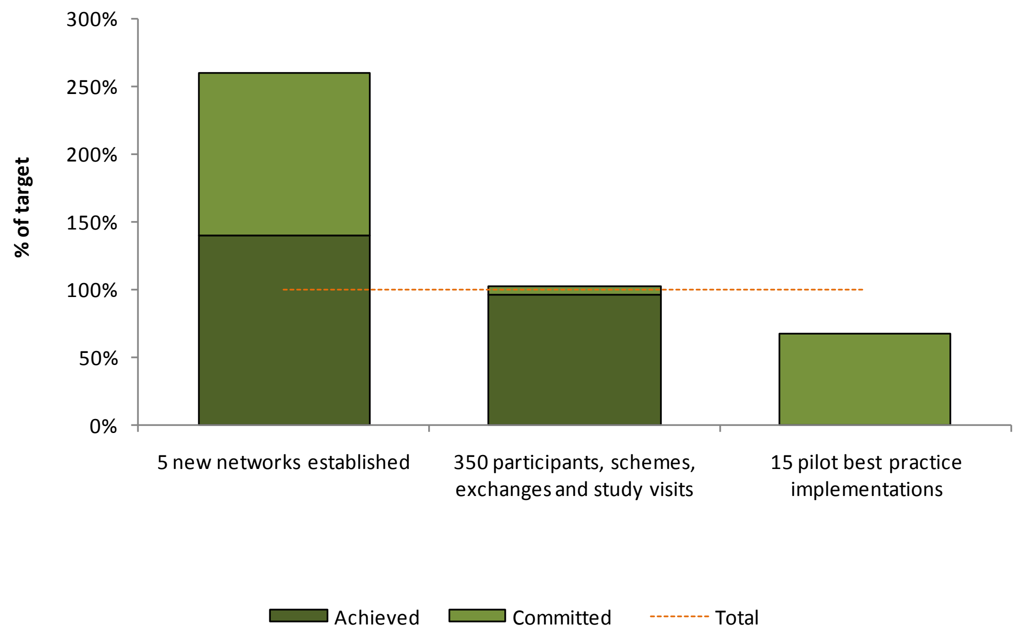


Source: Programme monitoring data

Outputs and Results Progress

7.12 Relatively modest targets were set for Priority 4 which reflected some uncertainty about the scale of the activity it might generate. Good progress has been made in achieving these targets, with projects having enabled the Programme to exceed its targets for the establishment of new networks and all but achieve its target for the number of people participating in Priority 4 funded activities.

Figure 7-4: Overview of progress on outputs and results

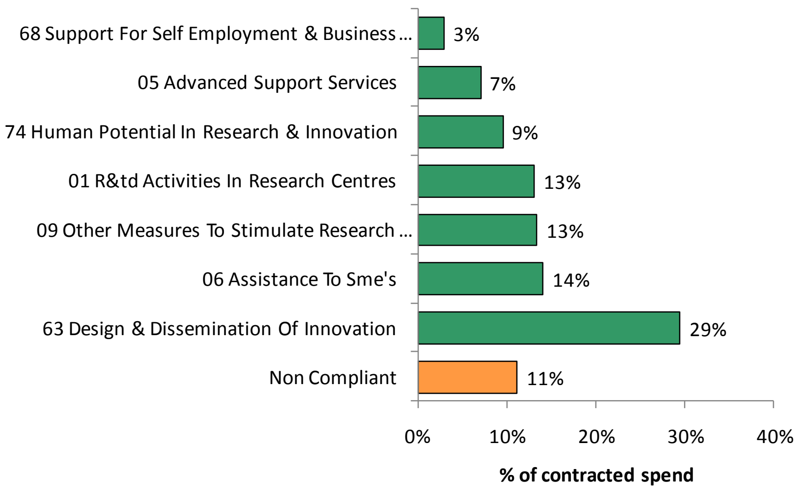


Source: Programme monitoring data

Lisbon Compliance

7.13 As Figure 7-5 shows, investments in Priority 4 have been substantially Lisbon compliant. This is consistent with the connections between all the contracted for projects and Priorities 1 or 2. Only 11% of investments have been assessed as non-Lisbon compliant, comfortably exceed the minimum level required for the overall Programme.

Figure 7-5: Overview of Lisbon compliant activities (Committed funds May, 2011)



Source: Programme monitoring data

Assessment of Priority 4 Investments

Key Delivery Factors

Initially good progress in allocating Priority 4 funding partly as a result of strong links across Priorities...

7.14 The progress made during late 2008/early 2009 resulted from collaboration between the Priority 4 Steering Group and the Priority 1 and 2 Working groups, backed by AWM and the Programme Management team. This ensured the projects that progressed to funding approval demonstrated a clear fit with P1 and Priority 2 objectives and investments.

...but also a tendency to attract applications for projects that did not meet the key objective of delivering a transnational dimension to Priority 1-3 activities

7.15 A number of projects were rejected by the Programme as having failed to demonstrate sufficiently clear connections to Priorities 1-3. They appear to have focused either on more general transnational cooperative activity or on specific initiatives for which there was no parallel project in P1-3 supported by the Programme. To some extent, this may have been the result of a lack of clarity about the purpose of Priority 4, but it may also have reflected the greater flexibility of P4 compared to other sources of funding for EU collaborative activity which often involve more complex and formal partnership arrangements. The point here is that Priority 4 attracted applications which could not secure funding from other sources, with the availability of funding rather than the specific objectives of the ERDF Programme driving them.

Uncertainty amongst delivery organisations about eligible and ineligible activities created difficulties for partners...

7.16 The Programme's progress report in December 2010 highlighted some problems having arisen over the activities of delivery organisations that were eligible for ERDF investment. In turn, this reflected the challenges of monitoring time spent on ERDF project related matters from the wider work of these organisations. This led to a Programme decision that Priority 4 activity should be reviewed, although a full review has not yet been carried out in light of the closure of AWM and the challenges of putting in place transitional arrangements.

Loss of Single Programme and other match funding seen as key barrier to bringing forward further projects from 2009 onwards

7.17 Reductions in the availability of Single Programme and other sources of match funding from 2009 have been identified as a key factor in the decision of the Programme to close P4 to further applications. Projects already in the system with Single Programme identified as a main source of match funding were unable to proceed further, while the likely importance of Single Programme funding to the remaining allocation in the Priority pointed to a significant risk of inactivity as this source looked set to be reduced. In some cases, projects which were not dependent on Single Programme funds as their principal source of match also saw cuts in 2009 leading them to withdraw application.

Assessment of Priority 4 Investment Fit and Pipeline

Table 7-4: Summary Assessment of Priority Investments and Pipeline

Portfolio	Investment Gaps and Potential of Pipeline to Fill Gaps	Opportunities for Future Investment, Including Potential Sources of Match Funding
Priority 1	• Some projects appear broadly consistent with objectives of Priority 1 and tended to focus on technological collaborations in sectors where WM has strengths or opportunities (e.g. automotive, photonics). • Links to P1 projects not always clear, and appears to have been limited interest and limited success in identifying viable projects.	N/A
Priority 2	• Evidence of projects specifically linked to priority clusters in WM • Also included generic projects (e.g. Technology Networks) which sought to build connections between WM and other parts of EU's research base.	N/A
Priority 3	• No evidence of project activity.	N/A

Conclusions

7.18 The Programme's decision to close Priority 4 is a reasonable one given the challenges involved in delivering it. The following conclusions support this assessment:

- Despite having brought greater clarity to the Priority 4 investment strategy following the ex-ante evaluation of the Operational Programme, the Programme itself has recognised that a lack of specificity about the types of activity that would be funded resulted in a deficit of good quality project applications. Problems over the eligibility of some Priority 4 funded project activities represented a risk to a Programme which had sought to sustain very low error rates.

- The output targets for Priority 4 were largely met with the small number of project investments made during 2008/09. To this end, the need to achieve Programme targets provides no rationale for continuing to invest through Priority 4.

- While there are clearly some benefits to the West Midlands from increased international engagement, it is not clear that the types of activity coming forward for ERDF investment have been essential to the Programme achieving its objectives. There are other mechanisms, both commercial and originating in the public sector, through which international collaboration, lesson learning and the dissemination of results can be pursued and there would not appear to be a strong case for ERDF being a vital fund of last resort to support this activity. In turn, this raises further questions about the need for a stand alone Priority when transnational activity could be integrated into individual projects (eg. in P1 or Priority 2), albeit without ERDF.

- Considered together, the combination of factors identified above from the loss of a key match funding source to problems with the eligibility of Priority 4 funded activities suggests that the decision to close the Priority to new applications was justified.

Recommendations

Close Priority 4 to new applications and vire remaining Priority 4 resources to other Priorities

7.19 There is a good case for vireing the remaining Priority 4 resources to other Priorities. Three options should be considered by the Programme in its response to the evaluation's recommendations:

- Transferring the allocation into Priority 5. Given the loss of Single Programme match funding, the evident need to bolster the capacity of the West Midlands to handle ERDF through the remainder of the Programme and the limited resources remaining in P5, it is suggested that this would be the most appropriate solution.

- Vire the remaining Priority 4 resources to contribute to a JESSICA project. The case for this approach is less persuasive given the availability of uncommitted resources in Priority 3 and the significant differences between the objectives identified in the Operational Programme for Priorities 3 and 4.

- Virement to meet the requirements of Priorities 1 and 2 subject to clarification on the level of commitment made to projects which have responded to the most recent open call.

Consider adjusting Priorities 1 and 2 to enable Priority 4 type activities to come forward as an integral part of projects under these Priorities

7.20 If partners retain an appetite for supporting a transnational cooperation and lesson learning dimension to projects, then consideration should be given to writing in these elements of the Programme to Priorities 1 and 2. This would effectively make such activities eligible for ERDF investment as an integral part of projects that come forward during the remainder of the Programme, as well as the potential for existing projects to apply for small amounts of funding to add on this type of activity. The Programme would need to be careful to ensure that scope for transnational activity is more tightly defined than was the case in the original Operational Programme. It should focus explicitly on action which supports the delivery of Priority 1 and 2 projects rather than more general opportunities to become involved in transitional activity.

8. Review of Priority Five

Priority 5 Strategy, Objectives and Targets

Aims, Objectives and Rationale

8.1 Priority 5 is the focus for the Technical Assistance in the Operational Programme. The strategy set the following objectives for Technical Assistance:

- Ensure smooth management and administration of the Programme
- Support Programme monitoring and evaluation
- Engage regional partners including the voluntary sector and assist in building capacity to work with the Programme
- Ensure that the Programme's achievements are communicated clearly and effectively to all relevant agencies and the wider public.
- Provide the Programme with access to good quality research

8.2 A total of €12 million (£10.68 million at current exchange rate) was allocated for Technical Assistance. The Programme took the decision that all projects under Priority 5 would be match funded with Single Programme funds, and limited use would be made of other funding sources.

8.3 Delivery of P5 centred on AWM itself, with much of the funding essentially earmarked for ensuring that the Programme had access to both the capacity and expertise to manage it effectively and give it the profile and weight it required in the region.

Targets

8.4 Targets for Priority 5 centred on its potential to contribute to the building of ERDF capacity in the West Midlands and to the Technical Assistance funding earmarked for research support to the Programme.

Table 8-1: Overview of Priority 5 targets and allocations

	Indicator	Total	% of Overall Programme
Spend	Total Allocation	£10.6m	3%
Key Outputs	Capacity building initiatives	16	5%
Results	Research studies	8	100%

Source: Operational programme

Progress to Date

Expenditure and Commitments

8.5 The Priority 5 expenditure data suggest significant headroom remains available in Priority 5, with around £7 million still to be committed. However, it is understood that the requirements of the core EPMT through the remaining period of the Programme, together with the need to ensure the availability of budgets for evaluation, marketing and communications, are projected to absorb the remaining allocation.

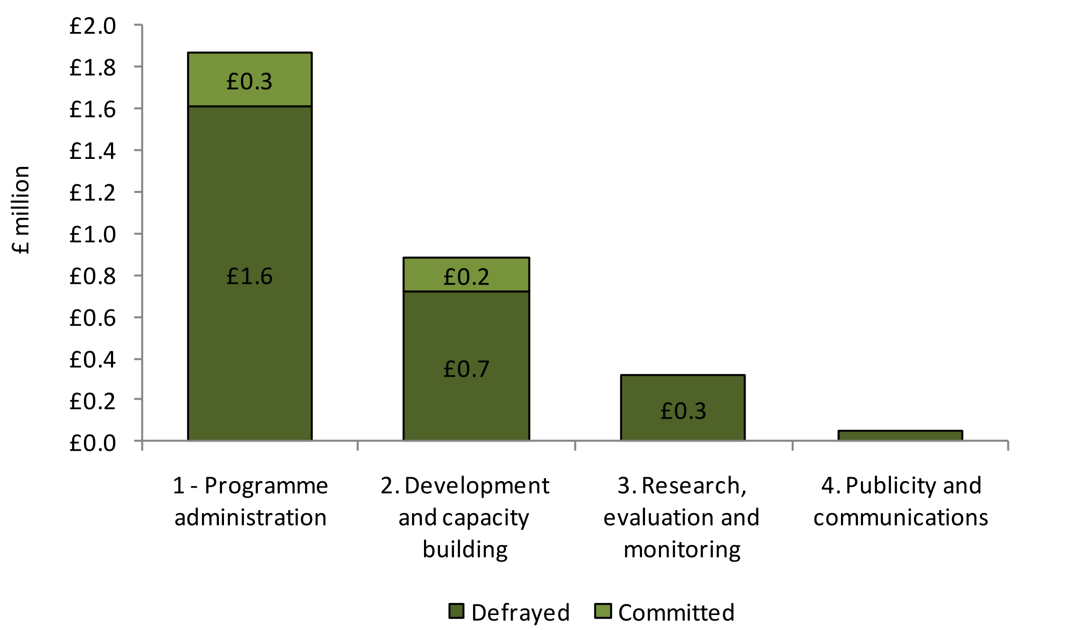
Table 8-2: Investment Summary Priority 5 (May, 2011)

	Number	Value (£m)
Priority Allocation		£10.5
Completed projects	4	£0.4
Contracted to date	5	£2.8
Projects at full application	-	-
Projects at outline application	-	-

Source: Programme monitoring data and Operational Programme
Committed = projects currently delivering, projects approved at full and awaiting contract.
Full application = projects endorsed at outline, projects working on full application and projects in appraisal
Pipeline – Projects at all stages before outline endorsement

8.6 The pattern of Priority 5 investment is consistent with the Programme's emphasis on providing resources for the administration and management of the Programme.

Figure 8-1: Expenditure and commitments by portfolio (May, 2011)



Source: Programme monitoring data
Committed = projects currently delivering, projects approved at full and awaiting contract.
Full application = projects endorsed at outline, projects working on full application and projects in appraisal
Pipeline: Projects at all stages before outline endorsement

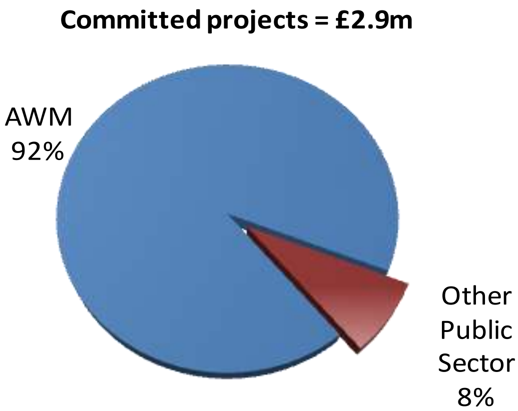
8.7 Both the programme administration and the research, evaluation and monitoring portfolios have been central to its operations over the period since 2008. Commitments to Programme administration funded key ERDF posts across Advantage West Midlands, while a contract with the West Midlands Regional Observatory for research support was designed to provide background data for projects.

8.8 Investments were made in a small number of projects which funded the capacity of external partners to support the Programme, principally by enabling them to advise on ERDF funding opportunities and promote the Programme. Funding of the EU Connects project provided ERDF resources to support partners in accessing funding for transnational projects across the European Union. A second capacity building project saw investment in the West Midlands European Network, channelling technical assistance to the enable third sector organisations to access EU funding including the Structural Funds.

Match Funding

8.9 The dependence of Priority 5 on Single Programme match funding is clearly illustrated in Figure 8-2 below.

Figure 8-2: Summary of match funding in Priority 5 (May, 2011)



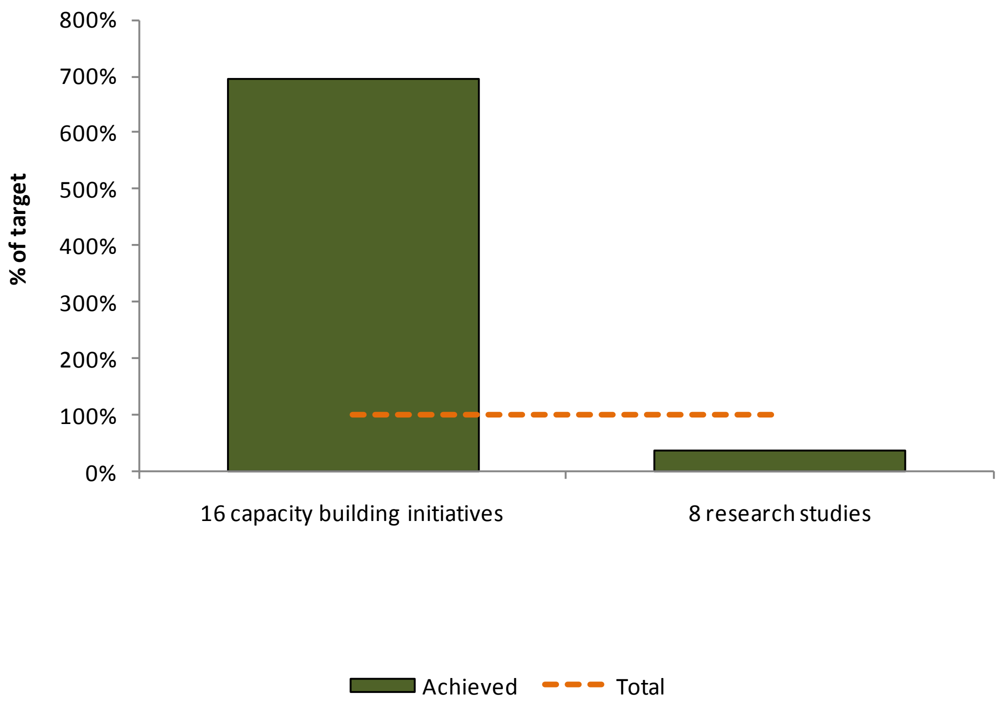
Source: Programme monitoring data

8.10 Clearly, the closure of AWM and loss of Single Programme match funding is a critical challenge for Priority 5. With public sector austerity measures affecting partners across the region, the scope for further investment in Technical Assistance projects outside the core management and administration of the Programme would appear to be limited.

Outputs and Results

8.11 Investments in capacity building both through the two external projects and through outreach activity by the Programme have enabled it to significantly exceed its capacity building target. Good progress was being made against the research studies target, but the lack of availability of Single Programme funding going forward means that it may be difficult to reach this target.

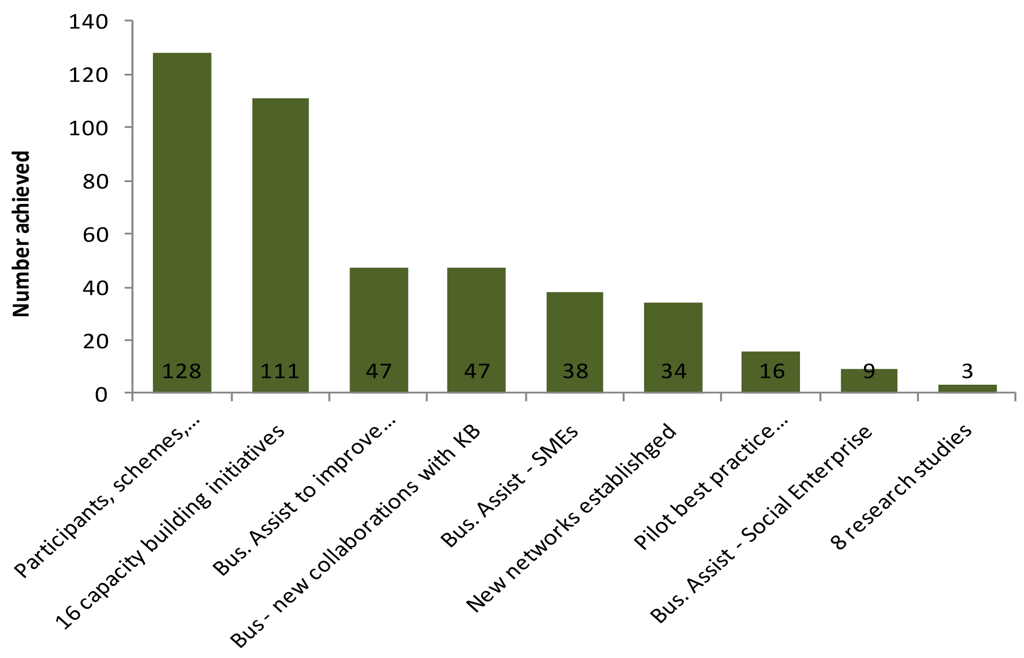
Figure 8-3: Overview of progress on headline indicator targets (May, 2011)



Source: Programme monitoring data

8.12 Through Technical Assistance, the Programme has been able to deliver against a wider range of indicators. These reflect the scale and scope of outreach activity carried out by externally funded partners and the Programme's own activities. They provide a useful indication of the breadth of initiatives that Priority 5 investments have supported.

Figure 8-4: Priority 5 - Achievements against all indicators



Source: Programme monitoring data

Conclusions

8.13 Priority 5 has been particularly important to the core management and administration of the West Midlands Programme. The strength of the ERDF partnership, the good progress the Programme has made in securing investments and its record on irregularities in part reflect this selective use of Technical Assistance. The evaluation has drawn the following conclusions about the Programme's investments under this Priority:

The value of a hands on approach to Programme management and administration backed by Technical Assistance

8.14 A consistent message throughout the evaluation about the tightly managed nature of the Programme. Technical assistance has played an important part in this, bolstering capacity in areas which has enabled the Programme team to take a hands on approach to avoiding problems as projects enter their delivery phase.

Benefits of outreach activity funded through Priority 5, with demand for more amongst partners

8.15 Technical assistance has also played some part in outreach work by the Programme. The evaluation has heard evidence about the benefits of the written guidance provided by the EPMT as well as the workshops and surgeries that were developed during the course of the Programme. These enabled it to engage both with potential applicants and lead delivery bodies for contracted projects. If anything, the evaluation heard evidence that more such activity would have been welcome.

A relatively limited use of Technical Assistance to fund external capacity

8.16 The focus of Priority 5 on central management and administrative capacity is consistent with the investment strategy outlined in the Operational Programme. Only limited investments have been made in the capacity of external partners, and these projects have principally sought to enable organisations to access a wide range of European Union funds, including ERDF. The Programme has also maintained a firm line that Technical Assistance should not be used to support ERDF bid writing. The flow of projects into the Programme does not immediately suggest that there have been significant deficits in the region's capacity to develop ERDF projects, and the results of the latest call for projects has shown there to be a wide range of ERDF applicants. However, with the closure of AWM and reductions in public sector funding for organisations across the region, capacity to bring forward projects is likely to be a bigger challenge for the Programme through to 2013.

Recommendations

8.17 Although it is a small component of the overall Programme, the future focus and use of Technical Assistance presents some significant challenges given changes in ERDF management arrangements nationally, the loss of Single Programme funding and the impact of public sector austerity measures. The evaluation makes the following recommendations about the future focus of Priority 5:

Ensure that sufficient Technical Assistance funding is available to support Programme management and administration through to its conclusion

8.18 It is understood that the Programme has assessed its core resource requirements through the remaining period, and that headroom within the Technical Assistance budget should cover these needs. However, this is based on a lean operation and the evaluation has concluded that there is no surplus capacity within the EPMT. To cope with any risks from a loss of personnel and to be geared up to handle a growing project load (new projects, management of projects in delivery), it is suggested that the Programme considers options for a modest increase in Priority 5 resources. It is understood that a review of the specific requirements for management of the Programme against the remaining Priority 5 allocation is being carried out and this may identify headroom in the current allocation. Two options are suggested should further resources be required:

- Consider increasing the intervention rate in Priority 5. With the potential to over achieve in terms of match funding secured in Priority 2, there may be an opportunity to increase the ERDF intervention rate in Priority 5 without undermining the achievement of the overall 50 per cent intervention rate across the Programme. In effect, this means 'surplus' match in Priority 2 which has resulted in a de facto ERDF intervention rate lower than the 50% target rate could be used to offset potential future shortages of funding in Priority 5.

- Increase the Programme's Technical Assistance allocation to from 3 to 4 per cent of the overall Programme budget, the maximum permitted by the regulations. This could be achieved by vireing a proportion of unallocated Priority 4 resources to Priority 5.

8.19 The challenge with this recommendation will be securing the match funding to support any additional investments in central EPMT capacity above and beyond the core requirements. However, the evaluation recommends that the need for such contingency be recognised by the Programme and CLG centrally.

Consider allocating Priority 5 resources to strengthen external capacity to support the Programme

8.20 While core management of the Programme should remain the key objective for Priority 5, the evaluation has pointed to a perceived need to strengthen the capacity of external organisations to support the Programme. This ranges from the specific delivery of the package approach in Priority 3 to the broader availability of advice and guidance on how to access ERDF for potential applicants. The headroom available in Priority 5 will only be clear once the review of resource requirements is fully completed and decisions are taken on vireing resources or surplus match. However, the Programme should now be determining how best to invest in external ERDF capacity, including any application process it might put in place, for the period through to December 2015 when the Programme is formally closed.

Maintain Programme resources for research and evaluation

8.21 The evaluation has made a number of recommendations about research and evaluation, including the need to review the key baseline indicators, the need to strengthen the analysis of outputs and results performance and the priority that should be given to developing an impact framework. In addition, the Programme needs to ensure that project evaluations remain an integral part of its performance management process. This is a challenging set of tasks given the loss of Single Programme resources which played a critical part in research and evaluation. However, the Programme should look to earmark sufficient resources through Priority 5 funding to ensure that it maintains a robust approach to evaluation through its remaining period.

Earmark Technical Assistance resources for possible investment in systems and process software

8.22 There is a need to at least explore the potential for Technical Assistance funding to support the Programme in building databases and improving CLG software platforms that ensure the transition from AWM to CLG does not significantly disrupt systems and process that have worked effectively to date. Teething problems with the migration of data and the use of new systems are inevitable, and there is a need to minimise any risks of delays in project monitoring, claims processing etc. arising as a result of problems with data systems.

9. Review of the Cross-Cutting Themes

Aims, Objectives and Rationale

9.1 The Operational Programme sets out the region's commitment to deliver 2 cross-cutting themes, a formal requirement of ERDF. Two cross-cutting themes were identified by the Programme as follows:

- **Environmental sustainability**. The objectives set down in EU regulations and the Community Strategic Guidelines are to ensure that economic growth does not take place without action to tackle rising carbon emissions. For the West Midlands Programme, this meant both action to encourage more sustainable consumption and production, and the potential for ERDF investment to support the commercial development of technologies which lead to greater resource efficiency and lower levels of carbon emissions.

- **Equal opportunities**. The Operational Programme set objectives including increasing the engagement of under represented groups extending the benefits of economic growth and raising the earning potential for women, ethnic minorities and other disadvantaged groups.

9.2 The Operational Programme identified a number of specific CCT actions, which were usefully linked to each of the main Priorities. These are summarised in Table 9-1 below.

Table 9-1: Cross Cutting Theme Indicative Actions By Priority

Priority 1	Environmental CCT: Action to develop and commercialise low carbon technologies Equal Opportunities CCT: Inclusive approach to employment opportunities in innovative economic activities
Priority 2	Environmental CCT: Assistance to SMEs with resource efficiency measures and action to support companies in securing share of international environmental technologies market Equal Opportunities CCT: Enterprise support available to all groups, and effort to reach under represented groups with potential to develop and grow SMEs
Priority 3	Environmental CCT: Community focused low carbon initiatives (eg. energy generation); low carbon principles in design of buildings. Equal Opportunities CCT: Access to employment for disadvantaged people

9.3 While the environmental sustainability CCT is reasonably clear about what partners are seeking to achieve in the West Midlands, from the outset the equal opportunities CCT would perhaps have benefited from a less generic and more tightly defined set of headline objectives. As they stand in the Programme, they imply that ERDF investment will enable some redistribution of wealth in the region. While this objective is consistent with the thrust of the EU's structural funds regime, it is both ambitious and difficult to measure.

Delivery Approach

9.4 The key to the delivery of CCTs is to ensure they are embedded in project development, appraisal and monitoring from the outset. The main features of the Programme's approach to implementation set out in the Operational Programme are:

- Guidance provided to applicants about requirements on CCTs, including monitoring of progress on equal opportunities impacts and measurement of carbon emissions.
- Outline and full application forms together with appraisal documents include specific sections on CCTs.
- ERDF Priority Managers to be assisted by specialists on wider ERDF team (eg. with development and use of carbon measurement software).
- The potential to hold CCT training sessions and awareness raising events across the region.

9.5 While CCTs are intended to work across all areas of ERDF programmes, it is important to distinguish between horizontal actions (eg. implementation of carbon measurement tools, recording of equalities outcomes) and vertical measures (eg. projects which are explicitly designed to assist in reducing carbon emissions, business support projects targeted at under represented groups). In many respects, the vertical approach provides a more focused method of delivering CCT commitments, since the achievement of key CCT targets are of primary rather than secondary importance in projects of this kind. The West Midlands Programme is well geared up for this vertical approach, particularly under the environmental sustainability objective. A number of Portfolios are explicitly directed at activities such as resource efficiency and carbon reduction technologies, while the priority sectors include energy, transport technologies and advanced materials, all sectors in which low carbon technologies are an increasingly prominent component.

CCT Targets

9.6 The CCT section of the Operational Programme did not set specific quantitative targets. However, environmental sustainability targets are identified elsewhere and they include:

- CO2 reduction targets per project type for each Priority. Although the Operational Programme itself does not identify quantitative targets, the latest set of Programme indicators data identifies a target of 393,020 tonnes
- Brownfield land reclaimed or developed. A target of 10 Hectares was set across the Programme with all of the target concentrated in Priority 3. Although brownfield remediation has a part to play in improving environmental quality, it is not typically used as an indicator for the implementation of CCTs.
- Floorspace upgraded to BREEAM Excellent or Very Good at current standards. The Programme target is 75,000 sq m, all in Priority 3.

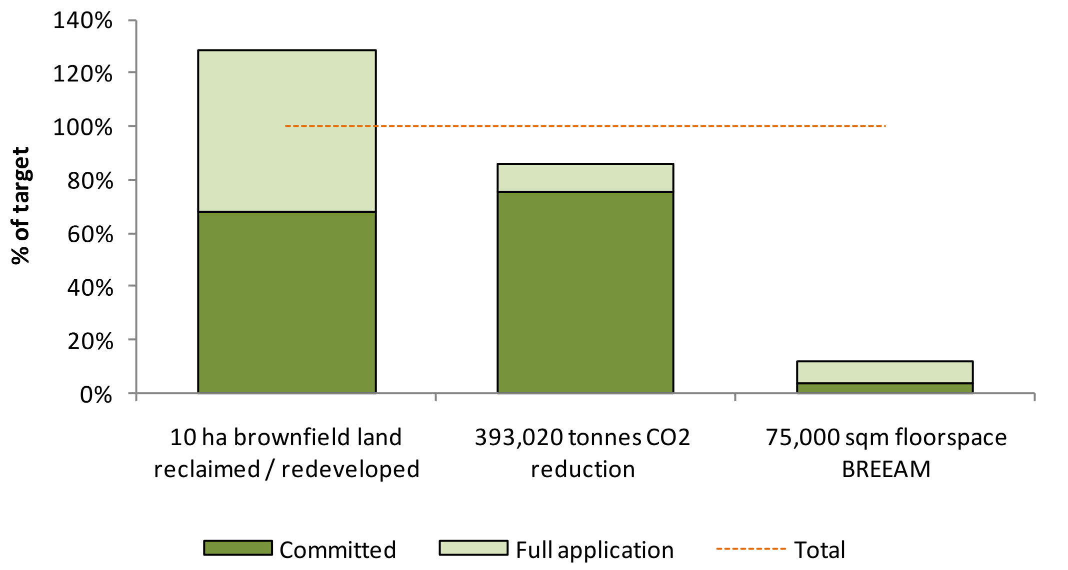
9.7 No specific targets were set for the equal opportunities CCT. Instead, progress is measured through monitoring data on the extent to which projects are engaging with under represented groups (eg. women owned SMEs supported, black and minority ethnic businesses supported). This data has not been available to the evaluation, and it is understood that there have been some difficulties in synthesising data reported by projects.

Progress to Date

Environmental Sustainability

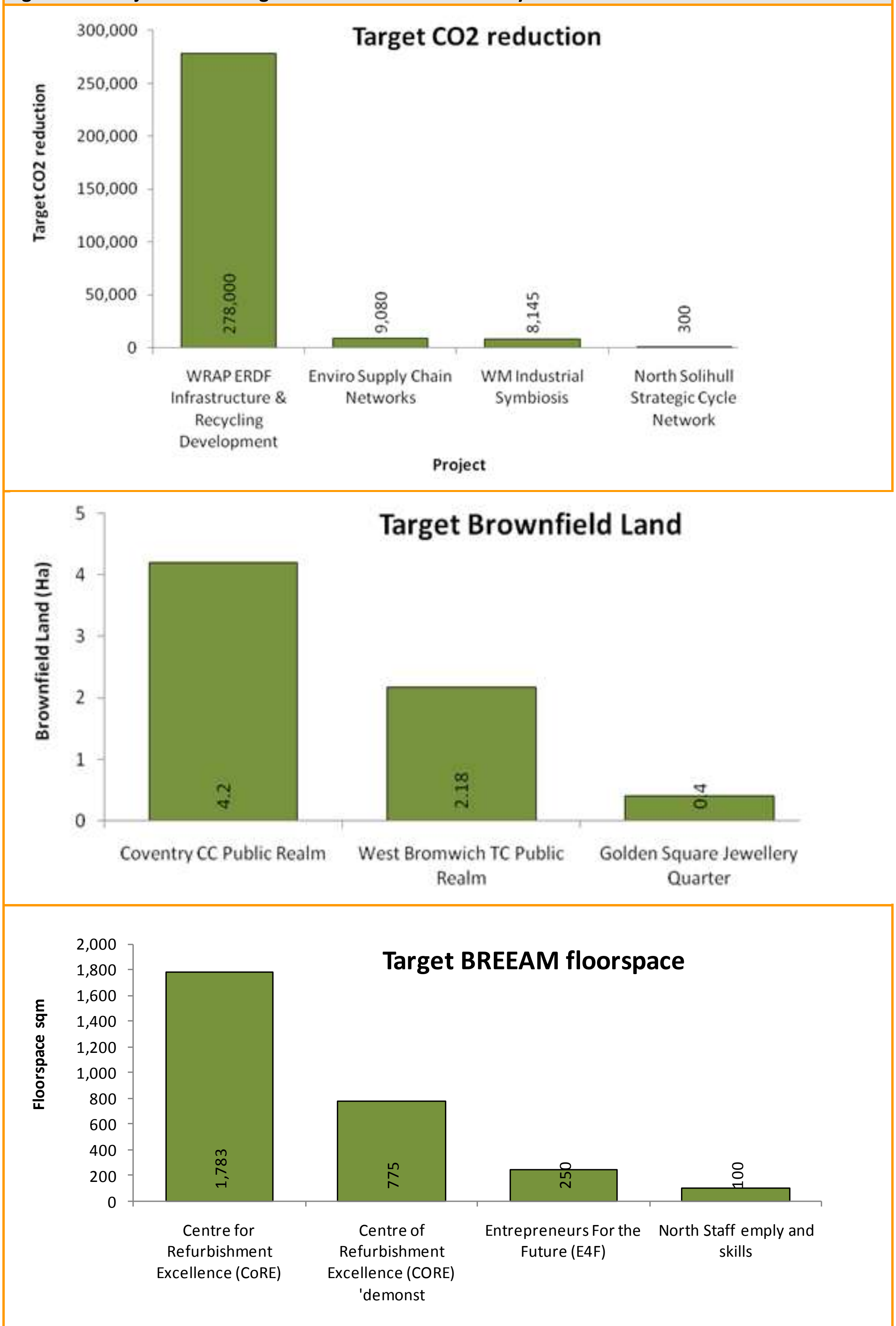
9.8 The Programme data shows a significant disparity on progress across the three main environmental sustainability targets. Good progress has been made on commitments to achieving the targets for brownfield land and CO2 reductions. However, little progress has been made on the BRE Environmental Assessment Method (BREEAM) floorspace target, reflecting a lack of projects having come forward which will deliver this type of high specification floorspace. This requires new floorspace funded through ERDF investment to achieve a BREEAM Excellent rating, the highest standard of sustainable building recognised by this method. Refurbished floorspace is expected to meet the BREEAM very good standard.

Figure 9-1: Progress on Environmental Sustainability Targets



9.9 As Figure 9-2 suggests, the pattern of delivery against targets for the CCTs is similar to those of the Programme's Priorities, with a small number of projects account for an overwhelming majority of the commitments to achieving the targets.

Figure 9-2: Projects Delivering Environmental Sustainability CCT



9.10 The key points from this analysis of committed projects are:

- Heavy dependence on the WRAP Infrastructure and Recycling projects (Priority 2) to achieve CO2 reduction target. This underlines the importance of a vertical approach to delivering the CCTs. A small number of projects at full application stage have the potential to enable the Programme to exceed its target for this indicator.

- The critical role that a small number of public realm projects (Coventry and West Bromwich) are likely to play in delivering against the brownfield land remediation target. Projects in the pipeline, particularly those which form part of the Tyseley Environmental Enterprise Area, have the potential to enable the Programme to significantly exceed its brownfield target.

- The limited number of projects delivering BREEAM Excellent floorspace, with particular dependence on the Centre for Refurbishment Excellence. Progress on this target reflects the relative lack of projects emerging through Priority 3 which will deliver commercial floorspace.

9.11 The current position on the Programme's CO2 reduction target suggests that it may underestimate its potential impact in this area. Only 9 projects (committed and full contract) account for the c. 338,000 tonnes of reduced CO2 emissions which the Programme is forecast to achieve to date. A wider range of projects should in theory be able to contribute to CO2 reductions associated with the outputs and results for which they are responsible. For example, demonstrator projects which promote resource efficiency or green energy usage amongst SMEs could have a significant impact on progress towards the target, although this would require the projects themselves to work with SMEs to collect secondary data to report into the Programme. However, establishing the precise level of CO2 emission reductions for which the ERDF funding is responsible is a complex and relatively resource intensive task both for the beneficiary SME and the applicant and/or lead delivery organisation.

9.12 As the situation currently stands, the Programme is unlikely to meet its BREEAM target, even given the recommendation that Priority 3 should seek to increase the number of investments it is making in commercial floorspace.

Equal Opportunities

9.13 Data has not been available to the evaluation on the equal opportunities outcomes being generated by ERDF project activity. The EPMT has pointed to challenges in ensuring that projects systematically provide the information that is required, and this contributes to the incomplete picture on equal opportunities in Programme performance data. This data is essential to building a clear picture of progress and the Programme should set out to address the problems it has in this area.

9.14 However, there are a number of observations about progress on the equal opportunities CCT highlighted through the evaluation:

- The presence of projects – chiefly in Priorities 2 and 3 – which are explicitly targeted at under-represented groups and disadvantaged areas. A good example is the Enabling Access to Self Employment Project, delivering support to blind people. However, this is a small scale project and match funding problems have been a key barrier to other projects of this type contracting with the Programme.

- The focus of projects in Priority 3 which are delivered in the West Midlands' most disadvantaged areas. Activities which deliver jobs and improve the employment prospects of communities in those areas could be said to aim explicitly at ensuring a better distribution of the benefits of economic growth in the West Midlands.

- Many of the organisations delivering projects across the region already have equalities and diversities policies in place which commit them to meeting both legal obligations and the principles of equal opportunities. To this end, projects are able to demonstrate formal commitments to meeting the key equal opportunities CCT requirements through the application process, since it is seen as an integral part of the way they operate. It is understood that the integration of an Equality Impact Assessment element into the project application and approval process helped to extract this information from applicants and reinforce the commitments they were required to make to equal opportunities.

Key Factors Influencing Delivery

9.15 A number of factors have emerged through the evaluation as critical to the way that CCTs are being implemented in the West Midlands Operational Programme. These are summarised in Table 9-2 below.

Table 9-2: Key Factors Influencing Delivery

Delivery Factor	Impact on CCTs
Generally effective integration of CCTs in application and appraisal process	• Project development and contracting processes have set expectations about what projects are expected to measure and achieve. • However, not clear how commitments to measure progress (eg. on E&D indicators) are being followed through.
Some business support projects for under represented groups failed in development through loss of match funding, while mainstream projects have emphasised existing business base and need to safeguard rather than extending reach to groups which may require more intensive support to overcome barriers.	• This has limited the number of ERDF backed projects which explicitly set out to target under represented groups, with knock on effects on progress in this area. • There is perceived to be untapped potential to invest more in this area, specifically in Priority 2. For example, the recently completed open call for projects in Priority 1 and 2 has seen applications from a number of organisations which represent and operate in under-represented and disadvantaged communities in the West Midlands. This should enable the Programme to demonstrate stronger progress towards its CCT objectives.
Lack of resources within EPMT to monitor delivery of CO2 reduction target and work with projects in implementation	• Prior to AWM's closure, some specialist resources were available for the delivery of CCT commitments. This resource is no longer available and even core activities (eg. carbon reduction measurement) is proving difficult to deliver, with the team lacking capacity and specialist knowledge to use the software effectively.
Resource constraints also appear to be affecting measurement of equal opportunities impacts	• No evidence was presented to the evaluation that equal opportunities data is being comprehensively reported by projects or collated and summarised by the Programme. The result is that no clear picture is available of progress in this area.
Presence of partners on PMC and PWGs with direct roles in key CCT activities (eg. West Midlands	• This helped to give some focus to embedding of CCTs in project development process, although a lack of information about implementation has made progress

European Network, Environment Agency)	monitoring difficult.

Conclusions

9.16 There are several conclusions about the Programme's approach to the implementation of CCTs and the future focus of its activities in this area:

A lack of clarity about the target framework for CCTs and their status within the Programme...

9.17 While the Operational Programme identified a set of proposed monitoring indicators, there was insufficient clarity about the quantitative targets for CCTs and their importance to the Programme. Progress towards CCT targets does not appear to have been a priority for the Programme, with patchy data and little strong evidence that it is being systematically collected and reported. The problem has been compounded by the limited resources the EPMT now has to get on top of progress in this area. It is not clear whether and how projects are being pushed to meet commitments to CO2 reductions and equality and diversity monitoring.

A lack of clear ownership of the CCTs

9.18 While the Programme was able to draw on specialist resources (eg. application of carbon reduction measurement tool) across AWM to advise on the CCT aspects of project applications, there does not appear to have been ownership of each of the CCTs and targets by a particular individual within the EPMT or wider Agency. This issue has been compounded with the closure of AWM, since specialist knowledge has now effectively been lost to the Programme. No progress on the CO2 target is reported as having been achieved at this point in the Programme, a problem which may in part reflect the difficulties experienced in using the carbon reduction measurement tool with the specialist in this area no longer being available.

Risks of dependence on a small number of projects

9.19 While the Programme appears to have contracted for projects that will bring it close to achieving its CO2 reduction target, the small number of projects involved represent a risk if any run into difficulties in the delivery process. Projects currently in the pipeline should help to mitigate this risk to some extent.

Good progress in securing vertical contributions to the environmental sustainability CCT

9.20 Investments in projects relating to environmental technologies and resource efficiency are enabling the Programme to make good progress on its CO2 reduction target. With further emphasis likely on low carbon demonstrator type projects and encouragement for energy efficiency projects, there is potential for the target to be significantly exceeded.

Potential for the Programme to have a greater impact on under represented groups in the West Midlands

9.21 Although the Programme has actively sought to develop projects which target under represented communities in the West Midlands, difficulties over match funding stymied efforts to bring forward a tranche of Priority 2 projects during 2009-10. However, the recently completed open call in Priorities 1 and 2 suggests potential for further ERDF investment over the remaining period of the Programme.

Recommendations

9.22 A number of factors have resulted in the CCTs having been given insufficient attention by the Programme, both at the post-contract stage with individual projects and in the overall performance management of the CCTs. The evaluation makes a number of recommendations to address this as follows:

Designate a CO_2 reduction target lead on the EPMT

9.23 The Programme has recognised the need to provide additional capacity on the EPMT to monitor and report on progress towards the CO_2 target. It should designate a lead officer to take responsibility for using the CO_2 measurement tool for project data, and it is understood that steps have already been taken to do this.

Systematically collect and report Programme level data on the equal opportunities CCT, designating a lead EPMT officer

9.24 The challenges of ensuring that this data is properly collected and fully reported by all projects are recognised, particularly the administrative resources required to ensure that projects fully report against requirements in this area and that this data is then synthesised across the Programme. However, the Programme does not currently have a clear picture of its progress in this area, and may be both under representing the positive impacts of some projects and failing to identify problems elsewhere.

10. Review of Programme Implementation and Management

10.1 Arrangements for the handling of English regional ERDF Programmes are in flux following the switch in managing authority responsibility from the Regional Development Agencies to the national Department for Communities and Local Government (CLG) which took effect on 1st July. In this respect, the review of Programme governance, management, systems and processes has had to reflect both the arrangements in place under the old regime and the emerging arrangements through the transition to the new regime. The key changes are as follows:

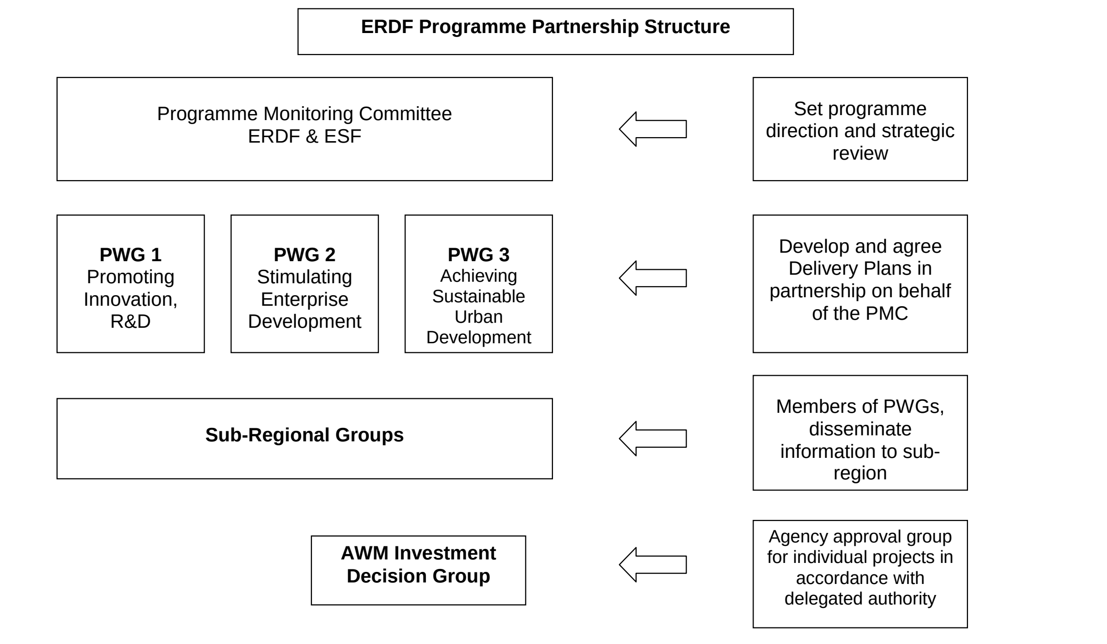
- Governance – shift from Programme Monitoring Committee as key strategic partnership body to Local Management Committee, chaired by a representative of CLG.
- Management – The European Programme Management Team now reports to CLG and has been decoupled from Advantage West Midlands which is in the process of closing down.
- Systems and Processes – Systems and processes for handling ERDF investment were an integral part of AWM's activities. These have now been systematically detached from AWM, with new systems and processes put in place specifically for ERDF, and others having been adjusted to reflect the transition to CLG.

10.2 This section of the evaluation assesses the quality and effectiveness of the Programme's implementation and management arrangements. It identifies aspects of the West Midlands' approach that have worked effectively and weaknesses. Given the importance of maintaining strong governance and management through the remaining period of the Programme, it also focuses on the challenges that the Programme will need to tackle going forward.

Governance Arrangements

10.3 Arrangements for the governance of ERDF Programmes are set out in European Union regulation and provide clear guidelines for the partnership structures that need to be put in place. The West Midlands approach which operated through to the transition to CLG as managing authority is summarised in Figure 10-1 below.

Figure 10-1: Key Governance Structures



Source: Description of management and control system
Supplement to Annex XII of Commission Regulation (EC) 1828/2006

10.4 Partnership arrangements and their contribution to the Programme stand out as a key strength of the WMOP. The Programme team, AWM and external partner organisations have all pointed to the importance of constructive and often long established relationships between individuals involved in developing the Programme and in its governance architecture. Several examples illustrate this point:

- The role of partners in drafting the Operational Programme, drawing on the experience of senior representatives of organisations with a good understanding of ERDF, previous exposure to the Objective 2 Programme and specialist knowledge of Priorities.

- The extent to which Programme design was informed by established strategies and the bodies behind them in the West Midlands (e.g. Regional Finance Forum, Enterprise Board for Priority 2.

- Engagement of partners in the Priority Working Groups, reinforcing continuity between established partnerships around ERDF and the 2007-13 Programme.

10.5 Overall, Programme governance arrangements are working effectively and have so far weathered the significant institutional changes that have taken place since the 2010 General Election, with the impacts these changes have had on both organisations and personnel. The key messages from the evaluation about the specific governance machinery for the Programme are set out below.

Role and function of the PMC

10.6 The West Midlands Programme Monitoring Committee, the lead governance body for the Programme, has been constructive, business like and fit for purpose, avoiding the more politicised and protracted debate that can divert PMCs from their focus on a Programme's strategy and performance. The main points highlighted by the evaluation are:

- The strength of and commitment to the partnership approach in the West Midlands which are seen to have played a critically important part in the way the PMC has worked. A clear sense of buy in to the Programme is evident, reflected in a good understanding of the strategy and objectives. This is not to say that tensions are absent. Inevitably, local and organisational priorities, and differences of view about the Programme surface within the PMC. However, partners suggest that these have not significantly reduced the effectiveness of the body.

- A sound understanding of ERDF as a funding regime in general is a feature of the PMC's membership. The Programme has benefited from having many members, including elected local authority representatives, with previous experience of ERDF together with a broader knowledge of the European Union.

- The flow and quality of information from the Programme to the PMC is seen as having been timely and generally good. The EPMT has sought to strike a balance between detailed information and the key headlines about Programme performance and investments. However, there is some evidence that PMC members feel over dependent on statistics about the Programme, and insufficiently well informed about the detail of Programme delivery and the issues and challenges it faces.

- There are perceptions on the part of some members that the performance scrutiny role of PMC has not been sufficiently robust. Some members attribute this to the breadth and depth of performance data (outputs, results, impacts) provided by the EPMT, although other consultees have seen merit in avoiding what might be seen as excessive detail. However, this light touch approach may have limited the influence that the PMC has exerted over Programme achievements during a particularly challenging period.

- The frequency of PMC meetings is seen by some members as having been insufficient, particularly when significant policy and funding changes have meant challenges both to process of securing new ERDF investments and to functions/memberships of key decision making committees.

Priority Working Groups

10.7 The Priority Working Groups (PWGs) are a feature of the West Midlands' approach to Programme governance. There are few examples in other Programmes in which senior level representatives of key partner organisations are involved in this way with individual Programme Priorities. There are a number of emerging messages about the PWGs' role, impacts and performance:

- For Priorities 1 and 2, the PWGs' principal functions are seen as shaping the Investment Frameworks, taking decisions about the focus of bidding rounds and forums to discuss Programme investment activity. They are viewed as having played a useful part in bringing together senior representatives of the organisations that are central to the successful delivery of the two Priorities to review and debate investment activity.

- There is little evidence to suggest that PWG members have sought to play a more substantive part in Programme investment decision making (eg. specific investment approvals). However, the corollary of this is that some members appear uncertain about the value and contribution of the PWGs, and this may explain why attendance has sometimes been below the full complement (non-attendance, substitutes attending).

- The PWGs appear to have had a limited role in performance management. Some members suggest that the depth of data provided about progress on spend, outputs and results has not given the PWGs a detailed picture of performance. Others attribute this view to the depth of engagement by PWG members themselves, with busy, senior representatives of partner organisations having limited time to navigate extensive documents prior to meetings.

- With the decision now taken to close the PWGs and to create an LMC sub-group, as well as potentially Priority specific sub-groups, the challenge for the Programme will be maintaining the engagement in a single committee of senior representatives of partner organisations spanning the three main priorities. While the ERDF Programme and the West Midlands more broadly serve as uniting factors, the Sub-Committee's focus will be much wider than that of the PWGs and there is a risk that partners will feel that the specific opportunities and challenges for individual Priorities are diluted.

Investment Decision Group

10.8 The Investment Decision Group (IDG) has played the key role in project approval decisions throughout the lifetime of the Programme to date.

- Those involved with IDG over the period through to the transition suggest that it was often robust and challenging in its approach to project decisions. The benefit of a membership drawn from different functions within AWM was probably an advantage in this respect, bringing a diverse range of perspective to the table.

- Navigating IDG could be challenging when its members may have had relatively little time to review complex applications. It is not suggested that this has led to significant delays, but the IDG may sometimes have raised questions about points of detail apparently resolved at outline endorsement stage.

- Following the decision to close AWM, the IDG now comprises the Head of West Midlands ERDF Programme, ERDF Team Leader, ERDF Project, Contract and Appraisal Team Leader and Technical Assurance manager. The challenge for the Programme is to retain a separation of functions given the senior roles of the IDG members on the Programme team. This is being managed through the formal structures and procedures in place for the development of full project applications, with Project Sponsors working with the applicant (or package) and appraisers to take the project through to approval stage. Maintaining this separation of functions going forward will be essential but is a particular challenge given the limited resources of the EPMT and the role of senior EPMT team members in overseeing all aspects of the EPMT's work.

Marketing and Publicity

10.9 Programme marketing and communications are generally seen as having been effective. The website has been commended by some partners for its clarity, and the material on Programme performance provided by the EPMT tends to be concise, visual and easy to follow. The extent to which the Programme has engaged with external partners, including potential projects, through surgeries, workshops and one-to-one visits has also been highlighted.

10.10 Programme publicity more broadly is also generally seen as effective, again probably reflecting the strength of partnership activity in the West Midlands. Until late 2010 the Programme benefited from the marketing and publicity resources of AWM, linking Single Programme resources to Technical Assistance funding. The big challenge and risk for the Programme is maintaining this activity in the absence of AWM and Single Programme resources. Over a period when the Programme needs to sustain its profile in order to attract applicants, it appears likely to have little explicit resource for this activity.

New Governance Arrangements

10.11 At its May 2011 PMC meeting the West Midlands partnership agreed on a set of principles and proposed structures for the new Local Management Committee. Early action by the partnership to agree an approach to the new regime further reflects the constructive atmosphere that has been a feature of the West Midlands Programme. The key aspects of the governance arrangements approved by the partnership were:

- An evolutionary (rather than revolutionary) approach, ensuring as much continuity as possible through the transition.
- A need to ensure the LMC does not become unwieldy, with its core membership set at 15.
- Make provision for representation from the newly created Local Enterprise Partnerships, which will have an important strategic role in future Programme governance. There is a desire to see business representatives from the LEPs, which play a central part in LEP Boards, brought onto the LMC. However, partners have also recognised that this is a big ask given the complexity of ERDF and the time commitments involved.
- Continued representation for elected local authority members and recognition of the need for local accountability, in line with the policy shift towards localism.
- Recognition of the need to ensure representation across the three main Priorities ie to continue to provide good balance of membership for the different Programme themes.

10.12 Among the most notable features of the new arrangements is the agreement to establish a new sub-committee to handle key operational tasks. The proposed sub-committee would replace the Priority Working Groups, taking on some of their responsibilities (eg. maintenance of investment frameworks). However, the sub-committee is also expected to enable partners to play a bigger role in project decision making, specifically at outline stage.

Partners have agreed that there should be a one year trial arrangement in which panels of the sub-committee are established to review project bids. The proposed sub-committee would have the following main functions:

- Monitor performance of the priority axes and maintaining the investment frameworks
- Managing performance of packages under Priority 3
- Preparing, agreeing bidding rounds to enable initiation of new projects
- Making recommendations to the LMC on virements between Priority Axes
- Reviewing outline proposals submitted under bidding rounds to agree which ones will be selected to go to the full stage and making recommendations on how the projects could be improved as they develop to full stage to better meet the programme/local/ thematic requirements
- Reviewing outline proposals which come through the packages at an agreed stage to make recommendations on how the projects could be improved as they develop to full stage to better meet the programme/ thematic requirements
- Supporting the collation and dissemination of programme management information as relevant to the Programme; i.e. mid-term evaluation and the Annual Implementation Report
- Escalating issues to the LMC or ERDF Team for resolution as appropriate.

10.13 Overall, the new governance arrangements agreed by partners have the potential to help ensure a relatively smooth transition to the new ERDF regime. Given the closure of AWM, the switch to CLG and the consolidation of the European Programme Management Team into a relatively small core unit, it is important that Programme governance arrangements enable partners to take on more strategic leadership responsibility and exercise greater influence over investment decisions. The evaluation has concluded that the approach adopted by the partnership provides a strong platform for achieving this.

Managing the Programme

10.14 The management of the West Midlands Operational Programme to date has been effective and is generally well regarded by partners. The transparency of the Programme, the extent of support for project development and its effective approach to managing in partnership have all been singled out in evaluation fieldwork. The key points highlighted by the evaluation are:

- A well structured and well understood approach to Programme management within the EPMT. The EPMT has clearly been prepared to revise and improve its approach to management when necessary. For example, the prioritisation exercise completed in December 2010 was in part driven by recognition of the need to focus limited EPMT resources on projects most likely to secure approval and commence spending in 2011.

- A largely positive story about the way that the Programme harnessed AWM's wider resources in support of its implementation. There appears to have been senior level buy in to the Programme from the outset across AWM, and a willingness to engage resources from across the Agency in all aspects of the investment process from generating investment ideas through to financial and legal matters. The extent of continuity from the previous Programme and the strong connection to the RES and Single Programme funding have also been highlighted.

- Clarity in the communication of Programme management issues and performance. For the most part the quality and volume of management information provided by the Programme is seen as effective by the PMC and PWG members. This has given a sense that 'nothing is being hidden' in the management of the Programme.

- Recognition of the need to strengthen performance management, principally through improvements to the quality of data on outputs and results, together with the development of a Programme impact framework.

- The Programme is understood to currently have the lowest irregularities level of any English regional ERDF Programme. This is attributable both to effective management and to Programme systems/processes. The EPMT is noted for its strong understanding of ERDF rules and regulations, particularly those relating to state aids and the eligibility of expenditure. In working with projects from the outline endorsed stage onwards to reduce uncertainty about the eligibility of activities, state aid compliance etc, approved projects have a lower risk of irregularities.

10.15 There should be some concern about the combined effects on Programme management of the closure of AWM, the shift to CLG's management of ERDF Programmes nationally and the impact of public funding cuts. Two challenges in particular stand out in the preliminary findings:

- A reduction in resources across the West Midlands to develop good ERDF project ideas and see them through to approval by the Programme. While the EPMT has set out its stall to continue to provide expert support to projects, a loss of capacity across the West Midlands will be a significant challenge to the Programme's ability to continue to secure a strong pipeline of projects. This is likely to put even greater onus on those organisations which have maintained in house capacity to develop and manage ERDF projects, with the result that new entrants are less likely to come forward. The Programme may need to consider whether there are ways in which Technical Assistance (P5) could be used to boost capacity.

- The potential for bottlenecks in ERDF project development, appraisal, contracting and monitoring/evaluation. There are currently four project development managers and seven appraisal and contract managers. Project workloads and resources are managed in such a way as to reduce the risk of backlogs and delays (eg. prioritisation exercise, December 2010). However, there would appear to be little surplus capacity as the team is currently configured. A significant number of new pipeline projects, an unexpected/temporary loss of staff resources or other pressures on resources would seem likely to require further prioritisation exercises and potentially consideration about redesignating staff within the team if no further recruitment is possible.

Systems and Processes

10.16 Effective management of the West Midlands ERDF Programme has been underpinned by systems and processes which have proved to be both largely fit for purpose and subject to continuous improvement. The Programme is recognised for having achieved the lowest irregularities rate of any English regional ERDF Programme, an outcome of systems and processes which appear to be carefully designed and comprehensively implemented.

10.17 The key overall findings about Programme systems and processes include:

- The Programme's willingness to learn lessons and improve procedures to reduce delays and ensure the best use of scarce resources. The EPMT established an internal Practitioner Board to look at all aspects of its project processes, and this appears to have given rise to regular improvements to specific aspects of these processes (eg. application form content, appraisal approaches, procurement guidance). Consultations with projects have suggested that, since the consolidation of the European Programme Team into a single unit at the end of 2010, there has been a streamlining of systems and processes that works in favour reducing the potential for delays and is more easily understood by applicants.

- The benefit of the Programme working with existing AWM systems (rather than developing entirely new systems). It took advantage of software and a framework for monitoring, assurance etc. that had been tried and tested, and this has further reduced the risk of mistakes. For example, use of AWM's Quality Management System.

- The systematic approaches that the Programme uses to ensure that all aspects of project processes are carried out in an organised and timely fashion. Examples include the setting of clear milestones for the application and approval process (eg. 6 weeks from outline to full application, 8 weeks from IDG approval to contract sign off) and the use of software to prioritise and monitor Article 13 (PEV and PAV) visits.

- The significant challenges and risks that the Programme now faces following the closure of AWM and the move to CLG in maintaining what has been a hands on and resource intensive approach to working with ERDF projects. The West Midlands' programme has maintained a low rate of errors and problems because of this approach to supporting projects. Any further reductions in the ability of the EPMT to operate in this way could have knock on effects on both the flow of projects through the pipeline and the level of support and guidance they receive in the delivery phase.

10.18 The evaluation has drawn a number of conclusions about systems and processes for each key phase of project development, contracting and delivery.

Project Development and Application Process

10.19 Over the past six months, there have been significant changes in the Programme's approach to project development and application processes. The key change has occurred with the consolidation of project development resources on the EPMT, bringing together resources that previously sat within AWM. This is understood to have led to further streamlining of processes, a move recognised as beneficial by project applicants, since the Programme has in effect become decoupled from the Single Programme.

10.20 The key messages about this phase of the project process include:

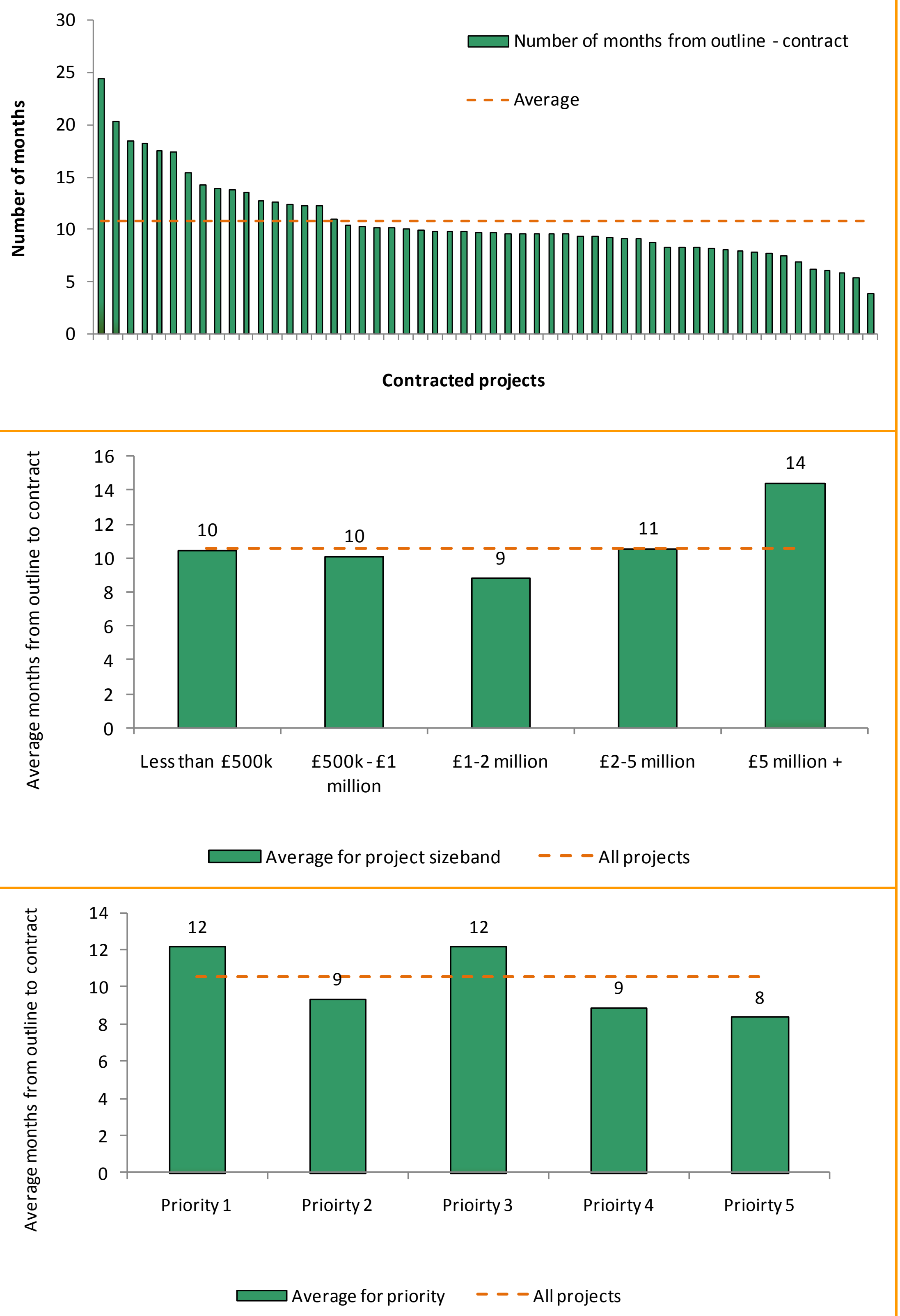
- A willingness to work with projects during the full application process to ensure that monitoring and evaluation requirements, including output recording systems, payment systems etc. are clearly understood prior to contract. While projects point to the complexity of ERDF rules and regulations and to some difficulties with guidance on specific issues (eg. outputs and results), the general message is that the Programme team has sought to work constructively with applicants, and this is reflected in the low rate of irregularities.

- Project sponsorship capacity is now concentrated in the ERDF team (five project development managers). A key challenge for the Programme will be the extent to which it can continue to provide this intensive form of support to projects following the move to CLG. The prioritisation exercises provide a partial solution to this problem, enabling the EPMT's project development team to work with those projects which are at a more advanced stage in terms of match funding, which will generate higher impacts etc. However, further prioritisation exercises are likely to be essential, and there would appear to be a higher risk of the Programme having to scale back the support it provides to projects through to the approval and contracting stage.

10.21 Development of ERDF projects from initial contacts with a Programme through outline and full applications stages to contract can be complex and time consuming. The West Midlands put in place a set of procedures which were intended to smooth the passage of a project through the key processes. For example, while application forms were long (reflecting the requirements for ERDF), the design of the outline and full application forms was intended to enable elements of the outline submission to be used later in the process.

10.22 However, given the number of staff likely to be involved through the course of an application and the potential for applicants to create delays through a lack of information or late provision of information, the process could be time consuming. At an average of 10 months, the time taken to contract with a project from the outline stage is on par with other English regional programmes. The analysis of the application process set out in Figure 10-2 below underlines this point. It suggests that the most lengthy application processes have been for the larger and probably more complex projects, particularly those involving capital investment (Priorities 1 and 3).

Figure 10-2: Duration of application process



Source: Programme monitoring data

Contracting and Post Contract Support

10.23 The key messages about the contracting process and post-contract support provided by the Programme are largely positive. The EPMT and members of the AWM team have been visible and available to projects, and the low volume of irregularities reflects the hands on approach of the Programme to ensuring that projects are as clear as possible about what is required prior to contract. The key points highlighted by the evaluation are:

- A willingness to continually refine and improve appraisal and contracting processes, driven by the EPMT's Practitioner Board. With appraisal resources having been significantly reduced with the consolidation of the EPMT in the past six months, this emphasis on show-stopping issues in appraisals rather than smaller points of detail will be increasingly important in managing the project load and minimising the potential for delays.

- The benefits of a well-structured approach to project engagement. There is little evidence so far of delays in carrying out these critical visits, despite the growing project load. However, there are some suggestions that the more complex projects would have benefited from more extensive visits in which EPMT members sought to resolve emerging problems during the visit itself. Clearly, this is challenging given the resources available for this set of tasks.

- Evidence of the potential for bottlenecks in the contracting process. The loss of specialist legal resources from AWM, the imposition of pre-contract conditions by the IDG, the complexity of ERDF contracts and the multiple roles played by members of the EPMT's appraisal and contracting team are all leading to some delays in negotiating and signing contracts with projects. The EPMT has responded by enabling project sponsors to prepare the ground for contracts (ie early stages of drawing up contract), but this is likely to continue to be a challenge for the Programme as new projects come through the system. The Programme will need to ensure that the maximum possible resources are available for this task as the results of the recently concluded Priority 1 and 2 open call feed into the project development process.

- Similar pressures on contract management. There were 22 contract managers across AWM whose responsibilities included ERDF (along with Single Programme etc.). This responsibility now rests with the seven member contract and appraisal function within the EPMT. Maintaining a hands on approach to post-contract support, including the negotiation of contract variations, ongoing guidance during project delivery and problem resolution are likely to become more difficult for the Programme.

Claims, Monitoring and Project Evaluation

10.24 The Programme's rigorous approach to systems and processes extend to its claims, monitoring and evaluation regimes. The key points highlighted by the evaluation include:

- Claims handling and financial checking processes which are seen as being much tighter than was the case under previous ERDF programmes. Again, the effective use of AWM software allied to a thorough system of checks appear to be features of the Programme's approach.

- Despite the highly formalised approach, evidence from project consultations has not highlighted significant delays in the processing of claims by AWM and the ERDF team. Inevitably, problems with claims do occur but this is sometimes the result of incomplete or incorrect information submitted as part of the claim. This underlines the need for and value of clear guidance and hands on engagement with projects to minimise errors.

- A system for organising PEVs and PAVs which is driven by an effective approach to the commitment of EPMT resources based on risk assessment. The more complex projects judged to be at greater risk of irregularities are given higher priority. The Programme will visit some projects at full application stage to prepare the ground for PEV and PAV visits, as well as seeking to provide projects with clear guidance and documentation about financial systems, monitoring and reporting requirements. Regular review of the issues that arise in PEVs and the involvement of the Practitioner Board has ensured that the Programme's approach to monitoring has been consistently improved and adjusted.

- As is the case with other areas of Programme management, systems and processes, the key challenges going forward centre on the resources available to the EPMT. Tight administration of Programmes and minimising rates of irregularities are expected to be central to the CLG's approach to ERDF. This will require the continued availability of sufficient resources to work intensively with projects to reduce the risks of mistakes and limit the potential for irregularities. There is a risk to the Programme if there are any further reductions in the size of the EPMT, and provision to secure additional resources may be necessary as the project load increases.

- While CLG and the Programme have sought to ensure a clean transition to new IT systems, any problems or delays in transferring existing information onto the new systems may have knock on effects on the processing of project claims etc. More broadly, it is not entirely clear whether or how the monitoring and assurance software currently used by the West Midlands Programme, along with other software which is used to manage these processes, will easily translate across to IT platforms used by CLG. These would also appear to be risks to the Programme's control of the resources it uses to carry out monitoring and assurance, and to its ability to maintain a comprehensive and up-to-date picture of project activities for monitoring and verification purposes.

- There are likely to be some difficulties in funding the evaluation of ERDF projects following the withdrawal of Single Programme match which tended to be allocated to this activity. It is understood that a revised evaluation framework is being put in place which will see the evaluation of a sample of projects rather than comprehensive evaluation coverage. The Programme will particularly need to ensure that the methodology it adopts for this approach provides data that gives a statistically robust picture of project performance and impacts.

Conclusions

10.25 The evaluation's overall conclusions about the West Midlands ERDF Programme's implementation and management are positive. Underpinned by a strong partnership, the Programme has put in place effective governance and management arrangements, together with systems and processes which have enabled it to keep errors to a minimum, an important achievement given the complex of ERDF. This has occurred despite considerable challenges with the closure of Advantage West Midlands, the loss of Single Programme Funding and regime change in management responsibility for ERDF Programmes. The key conclusions are as follows:

Programme has built on and maintained a well established partnership

10.26 Partnership has been a key asset for the West Midlands Programme. Those involved in the Programme point to a constructive atmosphere which has helped both to keep partners engaged and effectively harness the expertise in ERDF present in the region. This partnership approach is clearly reflected in an investment strategy which is seen as being owned by partners, and in the strong links between ERDF investment priorities and regional priorities identified in other strategies.

Continuity from 2000-06 Programmes has proved advantageous

10.27 An important benefit of strong partnership was the degree of continuity between the previous and current programme. This extends both to strategic partners involved in the PMC and to the team responsible for managing and administering the Programme. The involvement of individuals with substantial experience of ERDF in the West Midlands has been a significant advantage in terms of governance and management.

Effective integration into Advantage West Midlands

10.28 For the most part, the Programme's absorption into AWM proved to be effective both strategically and operationally. The volume of large scale, regional projects led by AWM is a good indicator of the strategic drive provided by the Agency. Good use was made of the wider resources offered by AWM ranging from specialist inputs on the development of projects to the marketing and promotional capabilities provided by the Agency. While there were some teething problems and frustrations, the general message is that the AWM-ERDF relationship worked well.

A tightly managed Programme reflected in a good record on irregularities

10.29 Accuracy is a feature of the West Midlands Programme, and the EPMT has been keen to emphasise the low rate of irregularities it has achieved. This attests both to the experience and knowledge of the EPMT and the way this has been deployed (eg. on state aids, regulations more generally) but also to the systems and processes which have been put in place, again making good use of the resources available through AWM. Whilst this tight management is recognised by partners, it is also sometimes associated with risk aversion. This is a relatively commonly held view about ERDF Programmes, and to a significant extent reflects the number of rules and regulations which govern use of the funds. However, the Programme needs to ensure that it continues to strive to achieve a balance between minimising the risk of irregularities and enabling the creative investment of ERDF in the region. In the absence of Single Programme funding and AWM developing large scale projects, encouraging partners to continue to see ERDF as accessible will be crucial to meeting the Programme's spending targets.

Some pinch points and frustrations for applicants...

10.30 The evaluation has identified a number of pinch points in project development, contracting and post-contract support processes. Again, this is not an unfamiliar story with the way that ERDF Programmes worked following their move into Regional Development Agencies, and it also reflects what is a comparatively complex funding regime compared to other public sector sources. There were inevitably some difficulties as systems and processes were brought together for Single Programme and ERDF funding, while the lengthy process of developing an ERDF project through to contract and the emphasis on strict application of the rules in some cases led to frustrations on the part of applicants. However, the West Midlands compares well with other English regional ERDF Programmes and the evaluation has not concluded that there were any serious flaws in the Programme's approach.

...but a willingness to learn and improve

10.31 The Programme has shown a clear willingness to improve its management, systems and processes. Projects have pointed to the positive changes made as application processes were streamlined towards the end of 2010 with the creation of a single European Programme Management Team. There is also recognition that the development of guidance, particularly written guidance, improved during the course of the Programme.

Some important challenges ahead following a transitional period

10.32 The transition from AWM to CLG as the managing authority represents a critical juncture for the West Midlands Programme. In keeping with the region's effective partnership approach, partners have sought to secure a smooth transition ahead of the changes, agreeing new governance and management arrangements ahead of the move to CLG on 1st July. Nevertheless, the transition presents strategic and operational challenges for the Programme. Ensuring that good quality investments continue to come forward is a critical strategic issue, and one which centres on the continued provision of strategic direction by the partnership and by capacity to develop and deliver projects. Operationally, the key challenges are to ensure that the Programme continues to be managed effectively while at the same time securing a flow of ERDF investments that meet the Programme's objectives and enable it to fully meet its targets.

Recommendations

10.33 The evaluation makes a small number of recommendations below about the Programme's governance, management, systems and processes. However, these arrangements are still undergoing significant change with the transition from AWM to CLG as the managing authority for ERDF programmes. It is to be expected that further adjustments will be necessary as the new structures and procedures bed down. The key recommendations identified by the evaluation are as follows:

LMC and sub-groups need to play strategic role on the investment frameworks

10.34 In the absence of AWM and with the emerging localism agenda, the wider partnership should gear up for a bigger role in strategic decisions about investments both in terms of the overall investment frameworks and the approvals process. The new arrangements already put in place provide a good platform, but it will be important to monitor and review the work of the LMC and the sub-group to ensure that it provides the necessary strategic direction.

Encourage coordination across the West Midlands

10.35 This remains a West Midlands Programme but in absence of AWM and other regional bodies, there will be new onus on LEPs, Local Authorities and partners to coordinate their approaches to ERDF. This will involve seeking common ground amongst investment priorities and efforts to secure projects with a scale and reach which extends across the West Midlands. At the same time, local priorities are likely to play an increasingly important role in the Programme, and the maturity of the partnership will be essential in achieving a balance which reflects both the growing emphasis on localism and the need to reflect the interests of the region as a whole. Both the LMC and the sub-group will have a critical part to play here and they should look to agree a set of principles for coordination at an early stage.

Strengthen performance management processes

10.36 There is recognition by the Programme of a need to tighten its approach to performance management. This is important both for expenditure and particularly for outputs and results performance. Strategically, this means the provision to the LMC and sub-group of more thorough data on outputs and results performance followed by action to tackle any current or emerging problems as necessary (eg. adjustment to appraisal criteria, calls for projects delivering specific outputs and results). Operationally, this means greater emphasis on the monitoring of outputs and results performance, working with projects to address any difficulties that arising.

Retain and, where necessary, bolster capacity to manage and administer the Programme

10.37 While the Programme has sufficient headroom in Priority 5 to fund the core capacity of the European Programme Management Team, it will be important to ensure some flexibility is available to enable additional capacity to be brought in to manage and administer the Programme if necessary. This will be critical to maintaining its strong track record on irregularities, as well as ensuring that it has the resources necessary to handle a growing project load through the development and contracting process. Specific recommendations on this point are made in the review of Priority 5.

Regeneris Consulting Ltd

Manchester Office
One Ashley Road
Altrincham, Cheshire
WA14 2DT
Tel: 0161 926 9214
Email: manchester@regeneris.co.uk

London Office
70 Cowcross Street
London, EC1M 6EJ
Tel: 0207 608 7200
Email: london@regeneris.co.uk

Web: www.regeneris.co.uk