



Department for
Communities and
Local Government

European Regional Development Fund

England Operational Programme 2014 to 2020

Consultation



European Structural and Investment Funds
Growth Programme for England (2014-2020)

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Introduction

The Government is setting up a single European Structural and Investment Funds Growth Programme for the 2014-2020 funding period. The Growth Programme will combine three separate European Funds. These are the European Regional Development Fund, the European Social Fund and part of the European Agricultural Fund for Rural Development. The vast majority of the Funds within the Growth Programme have been allocated to Local Enterprise Partnership areas in England, devolving more power and funding down to local areas compared to previous programmes

Each of the above three European Funds will have a separate national programme document which sets out the priorities and activities that each will support. These documents and the priorities within them, known as Operational Programmes, have to be agreed with the European Commission. In advance of submitting the Operational Programmes to the European Commission, Government is running a joint public consultation on the two largest Funds in the Growth Programme, the European Regional Development Fund and the European Social Fund.

This consultation document explains the key elements of the European Regional Development Fund Operational Programme 2014-2020 that will be submitted to the European Commission. It has been developed in consultation with partners over the past two years, and uses the local European Structural and Investment Fund strategies developed by local partners in each Local Enterprise Partnership area, which devolve the strategic decisions on funding down to local areas. It invites views in response to consultation questions that are at the end of this document. The questions ask about how to make the most effective use of the European Regional Development Fund in achieving its purpose of driving growth and jobs. Further details are set out in the attached Technical Annex.

The responses to the consultation will inform the Operational Programme that will be submitted to the European Commission in July 2014

Section one: Policy choices for the European Regional Development Fund

This section sets out key development needs and opportunities and proposed uses for the European Regional Development Fund in England. The activities that can be supported are set out in accordance with the policy objectives defined by the European Union for the European Regional Development Fund and as set out in the European Structural and Investment Funds UK Partnership Agreement. In total there are eight separate policy objectives, known as Thematic Objectives.

Thematic Objective 1: Strengthening research, technological development & innovation

Development needs and opportunities

Innovation, both the radical innovation of new products and processes and incremental innovation of existing products and processes is essential to increasing productivity and economic growth.

Across England, there is also wide variation in the levels of collaborative research between large enterprises, research institutions and public institutions. **There is potential for universities to further support small and medium sized enterprises through consultancy and contract research, and continued professional development.**

Use of European Regional Development Funds

There are three priorities under this Objective. These are:

- **Increase collaborative research between enterprises, research institutions and public institutions, for example by promoting collaboration and knowledge sharing, between Small and Medium size Enterprises and universities;**
- **Complementing domestic policies by providing leverage to encourage the commercialisation of research, for example by including initiatives targeted at business formation such as grants, loans or equity for start-ups or supporting the development of new products and services for established businesses..**
- **Investments in physical infrastructures such as “innovation hubs” and “incubator centres”.**

Thematic Objective 2: Enhancing access to, and use and quality of, Information Communication and Technology

Development needs and opportunities

The provision of superfast and ultrafast broadband can have a strong impact on economic growth. The Europe 2020 target is to deliver above 30Mbps (megabytes per seconds) superfast broadband across the entire European Union and 100Mbps ultrafast broadband for 50% by 2020. Access to and effective use of broadband can stimulate company growth, market development, knowledge flows, new businesses and improved productivity as well as access to the labour market for specific excluded groups, such as carers and some disabled people. The spill over effects of broadband investment is discussed in more detail in the Partnership Agreement.

Analysis of local needs and opportunities has identified two specific challenges:

- **Co-investment with private investors and other public funders to improve the speed and coverage of broadband infrastructure where appropriate.**
- **Measures to stimulate demand such as business support projects to increase awareness of the benefits of superfast broadband uptake amongst and improved use of in small and medium size enterprises.**

Thematic Objective 3: Enhancing the competitiveness of Small and Medium Size Enterprises

Development needs and opportunities

There is a wide variation in the competitiveness of small and medium size enterprises. The majority do not show growth in any given year. Separate research shows that only approximately seven per cent of small and medium size enterprises between 2002 and 2010 could be classified as 'high growth' according to the Organisation for Economic Co-operation and Development definition and these were responsible for creating nearly a quarter of all new jobs over three years.

There are various factors that limit the ability of a small and medium size enterprise to grow:

- Business owner awareness of and access to business support. Businesses report significant benefits from using business information and advice. However, less than half of United Kingdom small and medium size enterprises currently use business support due to difficulties in accessing information or advice and; doubts about the benefits of business support;
- The internal capacity and capability of a business including their ability to innovate;
- The external environment including procurement, access to finance and exporting.

Access to finance is a particular area of difficulty for small and medium size enterprises. While 38 per cent of small and medium size enterprise employers consider obtaining finance an obstacle to their business success, seven per cent of these employers report it as the main obstacle. Finance is also a disproportionately important obstacle for high growth firms compared to other businesses. Evidence suggests there has been a decline not only because of reduced supply of funding but also a reduced demand appetite for risk.

Exporting small and medium size enterprises are more productive, innovative and resilient than non-exporting firms. The contribution of small and medium size enterprises is significant – contributing to 80 per cent of the quantity of exports. A recent study found that 25,000 to 150,000 non-exporting United Kingdom small and medium size enterprises have the potential to be competitive in export markets.

Use of European Regional Development Funds

Small and Medium sized Enterprises are therefore seen by the EC and by Local Enterprise Partnerships as the highest priority for the 2014-2020 Growth Programme in terms of value of investment, focussed predominantly on access to finance and business support measures. The range of interventions includes:

- **Access to finance through grants, loans and equity**
- Groups of Local Enterprise Partnership areas looking to build on current financial instruments to improve access to finance for small businesses while others look to collaborate to set up **new financial instruments**;
- **Business support including advice services for entrepreneurship, commercialisation, and exports**;
- **Business support for new business start-ups**;
- **Business incubator space.**

Thematic Objective 4: Supporting the shift towards a low carbon economy in all sectors

Development needs and opportunities

As discussed in the Partnership Agreement, policies are in place to support the achievement of Europe 2020 targets in relation to greenhouse gas emissions reduction and renewable energy production. England has already met the Europe 2020 target and is now pursuing the more ambitious target set in the Climate Change Act of a 34 per cent reduction on 1990 levels.

There is significant growth potential in the low carbon goods and services sector in England. This sector grew by 4.7 per cent in the United Kingdom between 2009/10-2010/11 and now employs nearly 1 million people in 51,000 companies.

There is significant potential to continue to increase energy efficiency in England. Whilst businesses have increased efficiency there is more potential to do so. As detailed in

the Partnership Agreement, Government estimates that through socially cost-effective investment in energy efficiency, final energy consumption in 2020 could be 11 per cent lower than the 'business as usual' baseline.

Use of European Regional Development Funds

The UK has reached the EU target level for greenhouse gas reductions and domestic targets for 2020 will be reached through current Government policy interventions. The need to increase the percentage of energy from renewables to meet European Union and United Kingdom targets will be met by large-scale investments. Therefore, the main focus of the European Regional Development Funds should be on smaller-scale investments focussed on needs and opportunities addressed by whole place energy solutions, improved energy efficiency and low carbon innovation in technologies, goods and services. The range of interventions includes:

- Building the market in low carbon environmental technologies, goods and services through a range of financial instruments
- Increasing energy efficiency and decentralised energy production
- Increasing innovation in and adoption of low carbon technologies linked to existing strengths and natural assets
- promoting low-carbon strategies, in particular for urban areas, including the promotion of sustainable transport and energy solutions

Thematic Objective 5: Promoting climate change adaptation, risk prevention and management

Across England, there are areas of land that are ideal for economic development which remain undeveloped due to high flood risk either directly or by investment in green infrastructure. Specific sites include Hull, Greater Birmingham, Greater Lincolnshire and Cornwall and reflect a mix of urban and rural communities and their associated issues.

Use of European Regional Development Funds

The Government recognises the need to target European Regional Development Funds on economic growth. Its use will therefore be only where there is significant need to stimulate economic development that might otherwise be inhibited by flood risk.

Thematic Objective 6: Preserving and protecting the environment and promoting resource efficiency

There is fragmented coordination between government and industry about how to optimise efficiency in natural resource use and minimise impacts on the environment and this has adverse impacts on businesses that lack effective support and information. Product and service innovation in resource efficiency are not well supported and/or business opportunities exploited, particularly in Small and Medium Enterprises.

Use of European Regional Development Funds

The Government recognises the need to target the European Regional Development Funds on economic growth. This objective will therefore focus in particular on site development to bring derelict and brownfield land into improved condition where this will unlock employment sites and so deliver economic growth. Activities that enable this may include environmental improvements and innovative technologies to improve environmental protection and resource efficiency.

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

Development needs and opportunities

Across England, there are a number of areas in which potential for economic development has been and will continue to be adversely impacted by poor transport links. This is particularly the case in England's only Less Developed Region Cornwall and the Isles of Scilly where the overall resilience of all transport networks is poor and exacerbated by dispersed settlement patterns and dispersed and poorly connected labour pools.

Use of European Regional Development Funds

Funding under this objective will aim to improve the economic viability of areas by providing better transport infrastructure including environmentally-friendly and low-carbon transport systems.

Thematic Objective 9: Promoting social inclusion, combating poverty and any discrimination

The Government's 'Plan for Growth' (HMG 2011) and commitment to 'Local Growth: Realising Every Place's Potential' (HMG 2010) seek to support investment in places and people to tackle barriers to growth. This is particularly acute in some urban areas where the increasing role of London and the other English cities as engines for economic growth often masks significant economic disparities and deprivation with their functional economic geographies. Barriers to growth in such areas typically encompass multiple needs and points of disadvantage. Such problems are most effectively tackled through an integrated plan and investment strategy that brings together a range of relevant services and support and which involves local people in its design and implementation.

Use of European Regional Development Funds

The 2014-2020 European Structural and Investment Funds provide a mechanism for responding at a targeted local level to the kind of multiple barriers to growth and

disadvantage experienced in a local area. This mechanism is known as Community Led Local Development.

Community Led Local Development allows for the targeting of regeneration on specific geographic areas of need and opportunity. This is particularly the case in those areas where disadvantages persist in terms of rates of economic inactivity, entrepreneurship, access to the labour market and economic performance and where concentrated support is therefore required.

Section two: Local area options

Conditions vary across the country, so two kinds of instrument will allow a specific response to local conditions.

Sustainable Urban Development

5% of the European Regional Development Fund must be spent on sustainable urban development. This means that cities select relevant operations. London will retain its current status in the new programme and as such is in itself likely to deliver the 5% minimum threshold for Sustainable Urban Development.

However Government is keen to ensure that other United Kingdom cities should be able to participate in the European Union Urban Development Network. So urban authorities responsible for areas with a population in excess of 600,000 (according to the latest primary urban area dataset) will be invited to submit proposals to Government to deliver integrated actions for sustainable urban development. They will be invited to submit urban strategies for use of up to 10% of the relevant Local Enterprise Partnership areas' allocations, provided local partners agree. If Government agrees these urban strategies, the relevant cities will be able to select projects appropriate for their delivery. These arrangements will be set out in writing and procedures will be put in place to ensure clear accountability. Cities with urban strategies agreed by Government will be able to access the European Urban Development Network.

Section three: Partnership implementation

The partnership working arrangements for delivering of the programme once it has been agreed with the European Commission are described below.

Partnership working: governance

Government has established a European Structural and Investment Funds Growth Programme Board to act as a shadow national Programme Monitoring Committee for European Union funds in the England Growth Programme. Once the Programme moves into an operational phase following agreement by the European Commission of the operational programmes within the Growth Programme, the Board will review its membership and terms of reference and act as the Programme Monitoring Committee for the European Regional Development Funds and European Social Fund European Structural Investment Funds.

Partnership working: roles and responsibilities

The successful delivery of funds within the European Union Growth Programme will depend on close working between the Managing Authorities and Local Enterprise Partnerships who will co-ordinate and bring in local partners on a fully inclusive basis. This will be based on a clear split of roles and responsibilities, and on close and frequent communication at working level. Local Sub-Committees will provide a formal basis for this relationship.

The Managing Authority is responsible for managing the Operational Programmes in accordance with the principle of sound financial management. The Managing Authority will do so by working in partnership with economic and social partners and bodies representing civil society at national, regional and local levels throughout the whole programme cycle consisting of preparation, implementation, monitoring and evaluation.

For the funds within the European Union Growth Programme, Local Enterprise Partnerships will be responsible for coordinating these partners and driving the production and delivery of the European Structural Investment Fund strategy which makes best use of the Funds in delivering growth in their area and reflects the aims set out in the area's Strategic Economic Plan. This wide (Local Enterprise Partnership organised) partnership will collectively bring forward operations which deliver the best balance of outcomes and agree those with the Managing Authority.

Section four: Technical Assistance

Throughout the life of the Programme the objective of Technical Assistance is to facilitate robust governance, accountability and partnership engagement to support the efficient and compliant management and implementation of the European Regional Development Fund, ensuring that programme performance targets are achieved and that the delivery of European and Structural Investment Funds projects are compliant with the relevant European Union.

The England Growth Programme 2014-2020 represents a new approach in the delivery of the European Structural and Investment Funds in England. Up to half of the European Regional Development Funds and European Social Funds Technical Assistance budget will be made available to Local Enterprise Partnerships and local partners to support the delivery of European Structural and Investment Funds strategies in 2014-2020 subject to the requirements set out in European regulations..

Section five: Streamlined administration

The key focus of the approach to simplified administration has to been to review and apply the lessons learned from the review of the 2007-2013 programmes and to introduce measures that reduce the administrative burden on beneficiaries. Key measures that will be introduced to reduce bureaucracy include:

- **A single process** for the European Regional Development Fund and European Social Fund
- Design with the **customer journey at the heart of the process** – keeping things as clear, simple and as accessible as possible. The emphasis is on clear and explicit information and guidance so that there are no surprises for the applicant/beneficiary
- Doing the **right things at the right time and doing it well**. Avoiding duplication and focussing resources and effort where they deliver most impact and/or benefit
- **Reducing compliance risk** through clear guidance and **early** and robust testing
- **Digital by default**. Design and implementation of a single accessible IT system holding all relevant information and operating on the principle of '*collect once, use often*'.

Section six: Cross-cutting principles

The partnership agreement sets out the overall approach to the cross-cutting principles of sustainable development and equal opportunities. This section describes the specific actions that will be taken to promote these principles within the England European Regional Development Fund operational programme.

Section 6.1: Sustainable development

Purpose

Sustainable development envisages economic growth that is inclusive and environmentally sound to build shared prosperity, deliver immediate and long-term benefits, and meet the needs of future generations.

Decarbonising the economy is key to long-term sustainable economic growth.

Businesses need to address increasing costs of energy, water and raw materials, and harness opportunities within the low carbon goods and services sector.

Businesses also need to reflect in their planning the resilience of their assets and operations to severe weather events - flooding, droughts, and heat waves.

Section 6.2: Equal opportunities and non-discrimination

United Kingdom Legal context

All European Structural Investment Funds will promote equality in accordance with European Union and domestic legislative and regulatory requirements. The 2010 Equality Act provides a framework to effectively tackle disadvantage and discrimination.

Section seven: Consultation questions

Question one:

What priorities and activities should the European Regional Development Funds focus on to deliver local growth and jobs?

Question two:

What are the key needs and opportunities that should underpin the Operational Programme to meet what is needed locally?

Question three:

How can the European Regional Development Fund be used alongside other European and national funds to achieve economic growth?

Question four:

How do you think we could effectively promote and demonstrate the performance of the Programme and impact of the European Regional Development Funds?

Question five:

How do you envisage implementing the cross cutting themes locally?