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European Regional Development Fund

Technical Annex 2014 to 2020

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

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Technical annex 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.

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, 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 Technical Annex 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 informed by consultation with partners over the past two years on the delivery of European Structural and Investment Funds in England, and local European Structural and Investment Fund strategies developed by local partners in each Local Enterprise Partnership area. It invites views in response to consultation questions that are published separately in the European Regional Development Fund Operational Programme Consultation Document. The questions ask for responses about how to make the most effective use of the European Regional Development Fund in achieving its purpose of driving growth and jobs.

The European Regional Development Fund 2014-2020 programme will cover eight of the eleven thematic objectives for European Structural and Investment Funds in 2014-2020 set out by the European Union. Thematic Objectives 1 (Innovation), 3 (Small and Medium size Enterprises) and 4 (Low Carbon) will be of primary importance

- **Thematic objective 1**: Strengthening research, technology development and innovation
- Thematic objective 2: Enhancing access to and use and quality of, ICT
- **Thematic objective 3**: Enhancing the competitiveness of Small and Medium size Enterprises
- **Thematic objective 4**: Supporting the shift towards a low carbon economy in all sectors
- Thematic objective 5: Promoting climate change, adaptation, risk prevention and management
- Thematic objective 6: Preserving and protecting the environment and promoting resource efficiency
- Thematic objective 7: Promoting sustainable transports and removing bottlenecks in key network infrastructures

- Thematic objective 9: Promoting social inclusion and combating poverty and Community Led Local Development

Thematic objectives 8 and 10 for employment and skills will be addressed by the European Social Fund.

- The programme will cover the three European Union area categories in England: Less developed: Cornwall and the Isles of Scilly
- Transition: Cumbria, Devon, East Yorkshire and North Lincolnshire, Lancashire. South Yorkshire, Shropshire and Staffs, Merseyside Lincolnshire, Tess Valley and Durham
- More Developed: the rest of England

The Technical Annex has been informed by consultation with partners over the past two years on the delivery of European Structural and Investment Funds in England in 2014 - 2020, and also by local European Structural and Investment Fund strategies developed by local partners in each Local Enterprise Partnership area.

The responses to the consultation will inform the Operational Programme that will be submitted to the European Commission in June 2014. This version will also contain financial tables and technical information required by European Union regulations. The financial tables will be based on information provided in the local European Structural and Investment Fund strategies.

This Technical Annex contains the following sections:

1. Strategy: This sets out the challenges and needs in relation to the European Regional Development Fund in England.

2. Territorial development: This outlines how the programme will deliver Community Led Local Development, and the scope to support sustainable urban development and transnational co-operation.

3. Partnership: This sets out the arrangements for involving partners in the preparation and implementation of the programme.

4. Co-ordination with other Funds: This outlines the principles for co-ordinating European Structural and Investment Funds with other relevant European Union and national funds.

5. Administration: This outlines the action that is being taken to simplify delivery systems and reduce burdens on partners.

6. Cross-cutting principles including equal opportunities: This describes how sustainable development, equal opportunities and gender equality will be integrated within the programme.

Technical annex section one: Strategy

Section 1.1: Strategy

The thinking behind the Operational Programme

Smart, sustainable and inclusive growth is at the heart of England's economic strategy. Even though England is not formally signed up to the goals of Europe's growth strategy, 'Europe 2020', its economic strategy is closely aligned with the aims of Europe 2020.

The following table provides a summary of the Europe 2020 targets that are relevant to the European Regional Development Fund as well as the European Commission's recommendations for the United Kingdom economy, known as 'country specific recommendations'.

Table A: Europe 2020 targets and European Commission country specific recommendations

Europe 2020 target		***Thematic objective***
Research and development	3% of the European Union's Gross Domestic Product (GDP) to be invested in Research and Development	1
Climate change and energy sustainability	Greenhouse gas emissions to be 20% lower than 1990. 20% of energy from renewables. A 20% increase in energy efficiency.	4
Country specific recommendations for United Kingdom		
Access to finance for businesses	Measures to encourage banks to lend to businesses, whilst avoiding excessive risk taking.	3
Investment in infrastructure energy (renewables)	Investment in energy (renewables) and transport infrastructure.	4 and 7

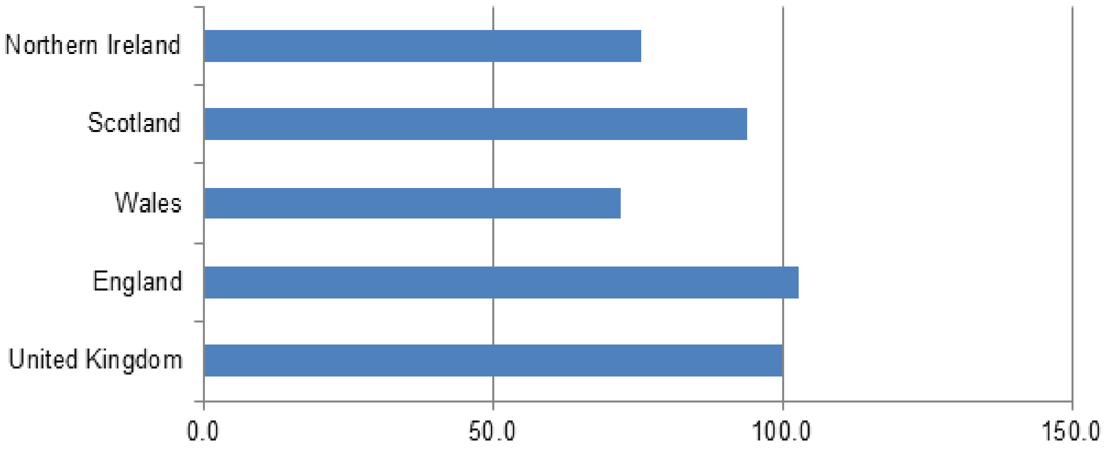
England's current economic position:

England has the strongest economy in the United Kingdom in terms of Gross Value Added and productivity.[1] In 2012 the Gross Value Added per

[1] Gross Value Added is a measure of the increase in the value of the economy due to the production of goods and services. It is measured at current basic prices, which include the effect of inflation, excluding taxes (less subsidies) on products (for example Value Added Tax). Gross Value Added plus taxes (less subsidies) on products is equivalent to Gross Domestic Product (GDP). Gross Value Added (GVA) per head is typically used for considering performance levels within a country. Although there are some criticisms of this metric it has the advantage that it provides a full picture of performance implicitly including both productivity and employment effects. This measure is therefore used in this section to consider differences in the economic performance of areas across England.

head for England was £21,937, marginally higher than that for the United Kingdom at £21,295 and substantially higher than that for Wales at £15,401. Figure 1 shows the Gross Value Added per head of each of the four countries compared to the average for the United Kingdom.

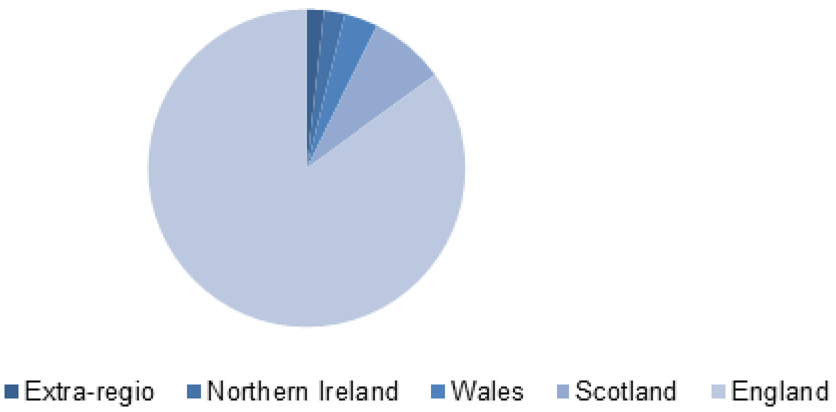
Figure 1: Gross Value Added per head index



Source: Regional Gross Value Added (Income approach), December 2013, Office of National Statistics

The total Gross Value Added for England makes up 85 per cent of the United Kingdom total Gross Value Added for the whole of the United Kingdom. Productivity in England is also higher at 101.5 per cent of the United Kingdom average compared to 85.2 per cent for Wales, 97.4 per cent for Scotland and 82.8 per cent for Northern Ireland.[2]

Figure 2: Share of UK Gross Value Added



[2] Office of National Statistics (2013) *Regional Gross Value Added (Income Approach), December 2013*, http://www.ons.gov.uk/ons/rel/regional-accounts/regional-gross-value-added--income-approach-/december-2013/stb-regional-gva-2012.html

Source: Regional Gross Value Added (Income approach), December 2013, Office of National Statistics. ('Extra regio' refers to off-shore contribution to Gross Value Added that cannot be assigned to any region)

England's economy grew by 1.8 per cent in 2013 after experiencing one of the deepest recessions seen by any major economy. Between 1980 and 1997 United Kingdom Gross Domestic Product (GDP) grew by an average of 2.8 per cent accelerating to 3.2 per cent per year in real terms between 1997 and 2007. Following the recession, United Kingdom Gross Domestic Product (GDP) contracted.

Latest economic measures are encouraging and show that the economy is strengthening. Growth has been driven mainly by consumer spending supported by a falling ratio of savings to spend and a small rise in consumer borrowing. However, the recovery is now beginning to broaden with strong house market indicators and increases in business confidence supporting the recovery in business investment.

The labour market has remained resilient during the crisis and continues to strengthen. United Kingdom employment figures have seen quarter on quarter growth and falling unemployment. By the end of 2012, the employment rate had risen to 72.1 per cent and the unemployment rate had fallen to 7.2 per cent. However, the performance of the labour market varies across the United Kingdom, with some groups at a particular disadvantage including young people, disabled people, people from some ethnic minorities and older people. Underemployment (a measure of net additional hours of work desired at current wages, as a percentage of the total hours of labour available) has also remained high.[3]

There are significant differences in economic performance across England as detailed in the England Chapter of the Partnership Agreement. Disparities across different areas in England are often illustrated using Local Enterprise Partnership level data, as these are the organisational units of delivery for the majority of England's European Structural and Investment Funds. For example, Local Enterprise Partnership areas in London and the wider South East of the country have higher Gross Value Added per head but contain some very poor areas such as East London and Medway. Similarly, there are important centres of economic activity outside London, such the areas surrounding Manchester, Leeds and Bristol.

A more nuanced analysis of England's economic geography is perhaps one of:

- London: as England's largest centre of economic activity, London is home to 15 per cent of England's residents, 18 per cent of jobs and generates over 25 per cent of output.

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[3] National Institute Economic Review (2013) *Underemployment in the United Kingdom Revisited* http://ner.sagepub.com/content/224/1/F8.abstract

- Prospering Southern England: the areas with trade and commuting interdependence with London.[4].
- Regional Centres: these include Birmingham, Manchester, Liverpool, Leeds, Sheffield, Newcastle, Bristol and Nottingham.
- Industrial Hinterlands: those areas outside of major cities but with urban centres historically associated with industry.
- Prospering Smaller Towns: are those areas with urban centres that are not so interdependent with London but demonstrate growth in population and jobs.
- Coastal and Countryside: this includes areas characterised by a rural economy

Table B (below) illustrates the disparities in economic performance within this geography with Gross Value Added per head in Inner London at £62,400 and Cornwall and Isles of Scilly having a Gross Value Added per head of £13,800.

[4] Polynet (2005) *Communing and the definition of functional urban regions, South East England* http://www.polynet.org.uk/docs/1_1_see.pdf

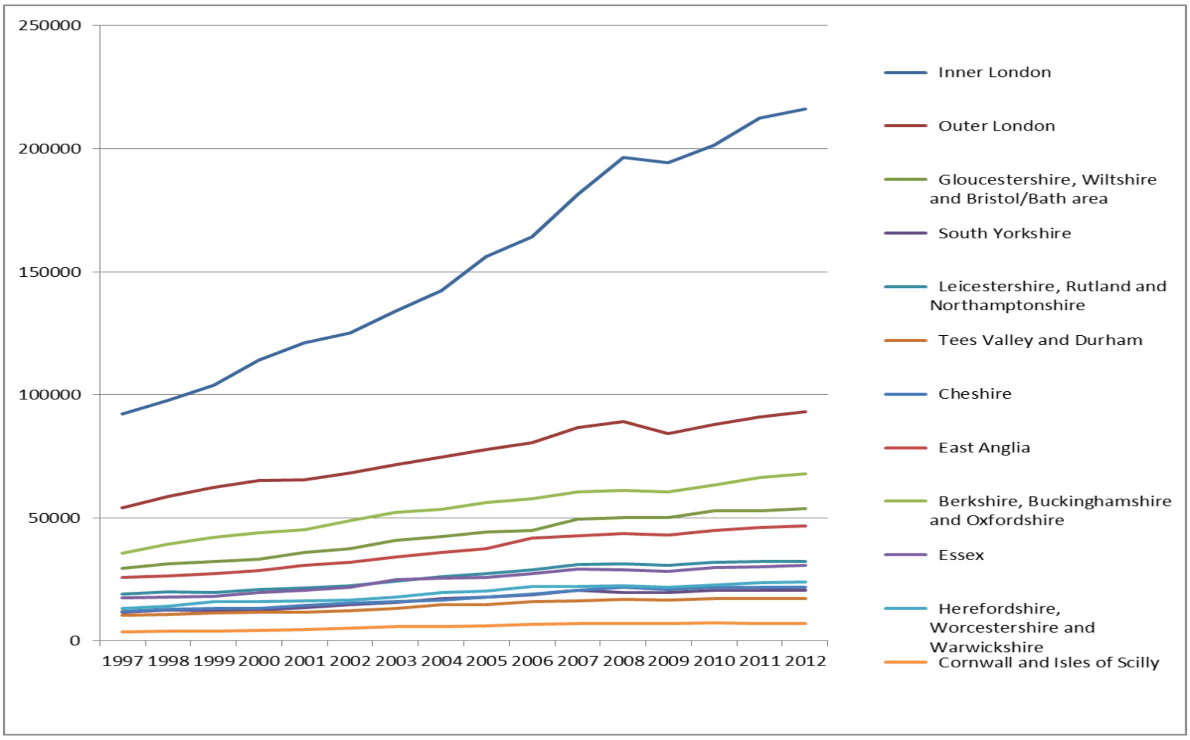
Table B: Spatial disparities in economic performance

Gross Value Added 2012, £s						
	London	**Regional Centres**	**Industrial Hinterlands**	**Prospering Smaller Towns**	**Prospering Southern England**	**Coastal and Countryside**
Areas with highest Gross Value Added per head						
	Inner London	Gloucestershire, Wiltshire and Bristol/Bath	Leicestershire., Rutland and Northants	Cheshire	Berkshire. Buckinghamshire. and Oxfordshire	Herefords, Worcestershire. and Warwickshire
Gross Value Added per head	65,765	22,663	18,642	24,154	29,579	18,393
Areas with lowest Gross Value Added per head						
	Outer London	South Yorkshire	Tees Valley and Durham	East Anglia	Essex	Cornwall and Isles of Scilly
Gross Value Added per head	18,571	15,262	14,710	19,320	17,722	13,036

Source: Gross Value Added, Income Approach NUTS3 tables

This variation in economic performance has been growing in the last few decades. Figure 3 below shows the growing variation in growth rates of the local areas with the highest and lowest rates of Gross Value Added in 2012, using the same economic geography as Table B above.

Figure 3: Gross Value Added growth between 1997 and 2012 of local authority counties/unitary authority areas with highest and lowest Gross Value Added in 2012.[5]

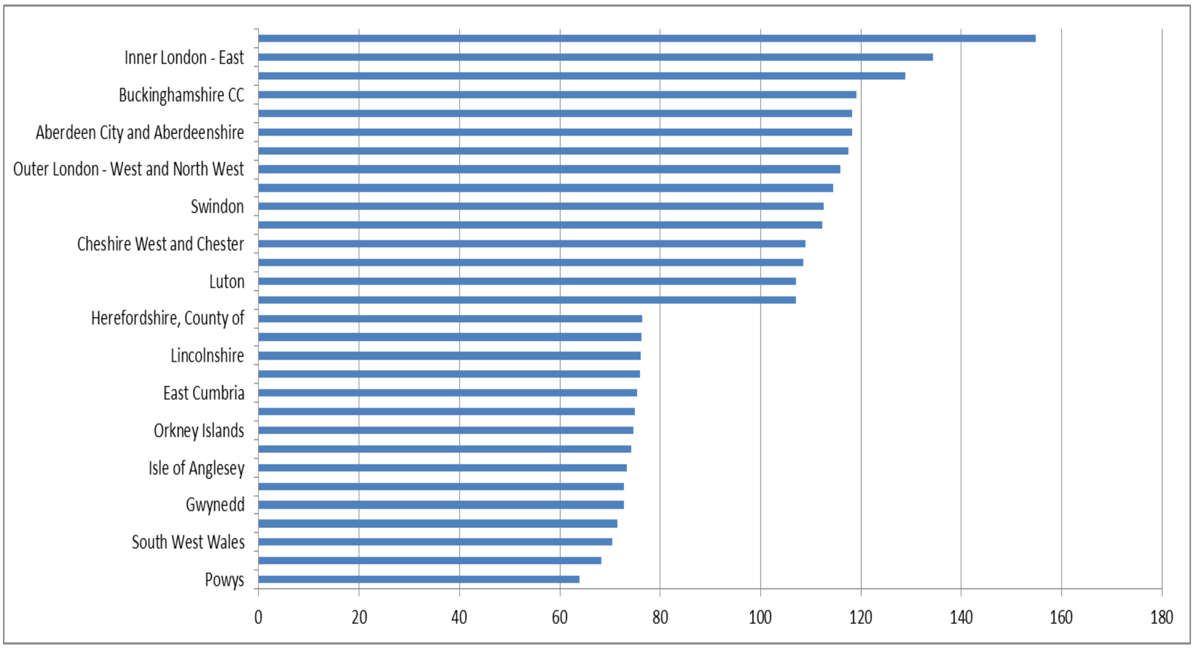


Source: Office of National Statistics

The main component that explains much of the differences in economic performance between areas is the productivity of people in work.[6] Differences in productivity level across the country have been widening. The gap between London and the least productive region grew from 55 to 80 per cent between 1993 and 2008. Figure 4 shows the current discrepancy between the ten local authority county/unitary local authority areas in the country with the lowest and highest productivity levels.

Figure 4: Nominal Gross Value Added per hour worked, highest and lowest ranking local authority counties/unitary local authorities 2012

[6] Historically, United Kingdom productivity has lagged behind other advanced economies, in particular the US, Germany and France. Despite United Kingdom productivity growth outstripping both the US, Germany and France from 1990-2007, output per hour in these countries still remained over 15% higher than in the United Kingdom prior to the financial crisis. United Kingdom productivity performance has been particularly poor since the financial crisis



Source: Sub regional productivity, March, 2014, Office of National Statistics

Productivity levels in turn are driven by the distribution of skilled workers. There is a highly uneven distribution of skilled workers across England with, for example, over 55 per cent of the population aged between 16 and 64 in West Inner London having a degree or equivalent qualification, compared to only 18 per cent in Stoke on Trent.[7] According to research by the Spatial Economics Research Centre[8], this distribution explains, in some cases, well over half of the apparent difference in wage disparities. These disparities are not due primarily to the quality of education being provided but because, once they have gained high-level skills, people are more likely to migrate to areas of the country where growth and incomes are higher.

One of the reasons for the variation in productivity is the difference in industrial structures across Local Enterprise Partnership areas in England. Some that have an industrial structure similar to the overall economy and some have particular specialisations that make those structures more distinct. At the local authority level, the areas with an industrial structure most similar to the country overall are Leeds, Birmingham and Bristol. The most dissimilar areas are City of London, Isles of Scilly, North Warwickshire and Tower Hamlets.[9]

While the industrial structures across areas vary, there is a general shift away from manufacturing and towards services, in particular, finance and professional services.[10] This is illustrated by the share of output generated across the country by these different sectors in table C below.

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[7] BIS and DCLG (2010) *Understanding Local Growth* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32113/10-1226-understanding-local-growth.pdf
[8] Gibbons, S., Overman, H. and P.Pelkonen (2010) *Wage disparities in Britain: People or Place* http://eprints.lse.ac.uk/30845/
[9] Office of National Statistics (2012*) Industrial Specialisation in Local Areas http://www.ons.gov.uk/ons/rel/regional-trends/regional-economic-analysis/industrial-specialisation-in-local-areas/index.html*
[10] BIS (2012*) Industrial Strategy: United Kingdom Sector Analysis http://www.bis.gov.uk/assets/biscore/economics-and-statistics/docs/i/12-1140-industrial-strategy-uk-sector-analysis*

Table C: England's industrial change

England Headline Workplace Gross Value Added, %Share by Industrial Sector, 2000-2010			
	2000	**2010**	**Change**
Main industrial sectors with a decreasing share of Gross Value Added			
Manufacturing	15.6	10.6	-5.0
Wholesale and retail trade	12.7	11.5	-1.2
Transportation and storage	5.8	4.9	-0.9
Information and communication	6.7	6.2	-0.5
Main industrial sectors with an increasing share of Gross Value Added			
Financial and insurance activities	5.8	10.1	+4.3
Professional, scientific and technical	7.1	7.7	+0.7
Education	5.9	6.7	+0.9
Human health and social work	6.2	7.8	+1.6
Low carbon goods and services		+4.3	+5.3
Source: Regional Gross Value Added, 2012			

The recession has accelerated this shift and some industries have been hit harder than others during the recession.
The shift in industrial structure of the economy has an impact on the demographic profile of local areas. This impact has meant that:

- The growth in jobs in business services, professional services, and property services is geographically concentrated, in particular in London and southern England.
- London has a much younger population and its population is international, with many residents born outside of the United Kingdom.
- In many regional centres and industrial areas, the population has declined or grown slowly.
- The population is older in coastal and country areas.

Actions being taken by Government

The United Kingdom Government in *The Plan for Growth*[11] set out the objective to achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries. There are four overarching ambitions, to:

- Create the most competitive tax system in the G20;
- Make the United Kingdom one of the best places in Europe to start, finance and grow a business;
- Encourage investment and exports as a route to a more balanced economy; and
- Create a more educated workforce that is the most flexible in Europe.

The Government has already put the following actions in hand:

[11] HM Government (2011) *The Plan for Growth*
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31584/2011budget_growth.pdf

Table E: Government strategies for smart, sustainable and inclusive growth

Policy	Intervention
Developing strategic partnerships with industry	The Government published strategies for sectors of offshore wind, international education, agricultural technologies, automotive professional and business services, construction, information, oil and gas, nuclear energy, aerospace, and life sciences.
Improve access to finance for businesses.	A Business Bank to support finance for Small and Medium Enterprises sits with other finance schemes – ○ Supporting loans such as Funding for Lending, National Loan Guarantee Scheme, Community Development Finance, Enterprise Finance Guarantee, and Business Finance Partnership. ○ Investments funds such as Seed Enterprise Investment Scheme, Enterprise Investment Scheme, Venture Capital Trust Scheme, Enterprise Capital Fund Programme, United Kingdom Innovation Investment Fund.
Supporting emerging technologies	The Technology Strategy Board established a ‘catapult’ programme to transform research into commercial ventures at specialist centres.
Investing in low carbon technologies	Renewable Obligations and Feed-in Tariffs provide incentives for renewable electricity generation.
Maintaining energy security.	The Energy Security Strategy sets out how a fifth of United Kingdom power stations will close in a decade. The Government is enabling conditions for new power stations.
Support for Green Investment Bank.	The Green Investment Bank has £3 billion from the United Kingdom government.
Reducing demand for energy	Measures to reduce energy consumption: The Green Deal to support energy-saving; enhanced capital allowances for businesses investing in energy saving.

The creation of Local Enterprise Partnerships as key drivers of growth

A central plank of this policy was the creation of thirty-nine Local Enterprise Partnerships. These are partnerships between local businesses and local government and other key players such as universities, the voluntary and community sector and social and environmental partners, to take a strategic view on how best to deliver growth and jobs in their areas. They are not accountable formally constituted bodies: they are partnerships providing a strategic steer and oversight. The wide variations in economic structure and performance in England explain the

Government's new approach to local growth policy in England, shifting power away from central government to these 39 Local Enterprise Partnerships..

This position is underlined by recent research, undertaken by independent consultants[12]as part of the Department for Communities and Local Government European Regional Development Fund Analytical Programme (2007-2013), which confirms the critical role played by local partners in both stimulating and facilitating innovative approaches to local economic development. The central role of Local Enterprise Partnerships and partners in developing and implementing local European Structural and Investment Fund strategies further reinforces this commitment.

Approach to the European Regional Development Fund

In June 2013, the Government announced the provisional allocations of European Regional Development Fund and European Social Fund that Local Enterprise Partnership areas should receive.[13] These Funds, combined with £177m European Agricultural Funds for Rural Development announced in December 2013, make up the 'European Structural Investment Funds Growth Programme for England'. These Funds offer England's 39 Local Enterprise Partnership areas around €6 billion over 7 years, to address needs and opportunities within their localities. The European Regional Development Fund contributes around €3 billion of that total. On the basis of these allocations Local Enterprise Partnerships and other local partners were invited to develop 'European Structural and Investment Funds Strategies' for use of their combined allocations.

The allocations are determined by regulations governing use of the Funds that define three geographic categories:

- Less Developed with Gross Domestic Product (GDP) per capita below 75% of the European Union average. The only area is Cornwall (and Isles of Scilly).
- Transition with areas with a Gross Domestic Product (GDP) per capita between 75% and 90% of the European Union average. This includes some rural areas, industrial areas and northern cities. The areas are: Cumbria, Devon, East Yorkshire and North Lincolnshire, Lancashire. South Yorkshire, Shropshire and Staffs, Merseyside. Lincolnshire, Tess Valley and Durham.
- More Developed with a Gross Domestic Product (GDP) per capita above 90% of the European Union average. The rest of England (i.e. the majority) falls into this category.

The effects of this investment are significant depending on locality. The 2007-2013 programmes have seen their European Regional Development Funding committed to major physical infrastructure investment in employment sites and premises,

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[12] Economic efficiency and what works in local economic policy, Peter Tyler, July 2013, Regeneris Consulting Ltd on behalf of DCLG.
[13] HM Government (2013) *Written statement to Parliament, European Regional Development Fund and European Social Fund:allocations 2014 to 2020 https://www.gov.uk/government/speeches/european-regional-development-fund-and-european-social-fund-allocations-2014-to-2020*

research and development facilities and other infrastructure that represent new economic assets for the locality. [14]

Local areas face choices about where and how to invest these Funds. Local Enterprise Partnerships and local partners have selected priorities for investment that reflect the needs of their areas, the changes planned in response to these needs and the results that the European Regional Development Fund and other European Structural Investment Funds will deliver.

In most cases the needs and the activities to address them are similar across the three area categories of Less Developed, Transition, and More Developed. This strategy therefore generally applies to all three categories of area. However where there are issues specific to a category of area these will be highlighted. This is sometimes the case in the Less Developed area of Cornwall and the Isles of Scilly and certain Transition areas.

[14] Regeneris Consulting Ltd (2014) *Economic efficiency and what works in local economic policy*. (A draft report for DCLG)

Section 1.2: Thematic objectives: Policy choices for the European Regional Development Fund[15]

European Union Regulations set out eleven Thematic Objectives for which European Structural and Investment Funds can support activities. The level of opportunities and needs for each Thematic Objective are not the same. This section sets out the development needs and opportunities and the proposed uses for those eight Thematic Objectives selected for the European Regional Development Fund programme consultation document..

Based on the European Commission's own views and on national analysis and local evidence set out in European Structural and Investment Funds strategies in each Local Enterprise Partnership area, the biggest opportunities and needs and therefore allocation of financial resources relate to three of the eight Thematic Objectives described below. Support for Small and Medium size Enterprises (Thematic Objective 3) represents the biggest challenge, with Research, Technology and Innovation (Thematic Objective 1) and transition to a Low Carbon Economy (Thematic Objective 4) accounting for the next two largest areas of need. The Government envisages more than four-fifths of the programme being spent on these 'core' Objectives.

The account below of each Thematic Objective should be read in this context. Thematic Objectives 2, 5, 6, 7 and 9 in relation to, respectively, Information and Communications Technology, Environment, Climate Change, Sustainable Transport and Social Inclusion will be smaller priorities in the European Regional Development Fund Operational Programme. They will not form the main focus of the programme and this will be reflected in the allocation of financial resources.. These Thematic Objectives will be relevant only in specific geographic circumstances and as an essential means of enabling more effective implementation of the core Thematic Objectives. (Annex A provides a summary overview of the analysis presented below.).

Thematic objective 1: Strengthening research, technological development and 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. In 2012, United Kingdom gross expenditure on research and development was 1.72 per cent, a fall from 1.79 per

[15] This section draws from research for the Department for Communities and Local Government (DCLG) as part of the evaluation of the European Regional Development Fund 2007-2013 (Regeneris Consulting Ltd (2014) Economic efficiency and what works in local economic policy. A draft report for DCLG). This research includes lessons from what has worked or not worked across a range of local growth and regional interventions. DCLG and the Department for Biusiness, Innovation and Skills (BIS) have also established funding for a new What Works Centre for Local Economic Growth that will improve the use of evaluation evidence. This will enable Local Enterprise Partnerships and European Regional Development Fund delivery partners to learn more about what policies and interventions work.

cent in 2011 and below the Europe 2020 target of 3 per cent. The majority of this expenditure takes place in England.[16]

There is, however, wide variation in innovation expenditure across England. The variation is detailed in the England chapter of the Partnership Agreement. Local Enterprise Partnership areas closest to London dominate research and development and account for almost 41 per cent of the total in the United Kingdom.

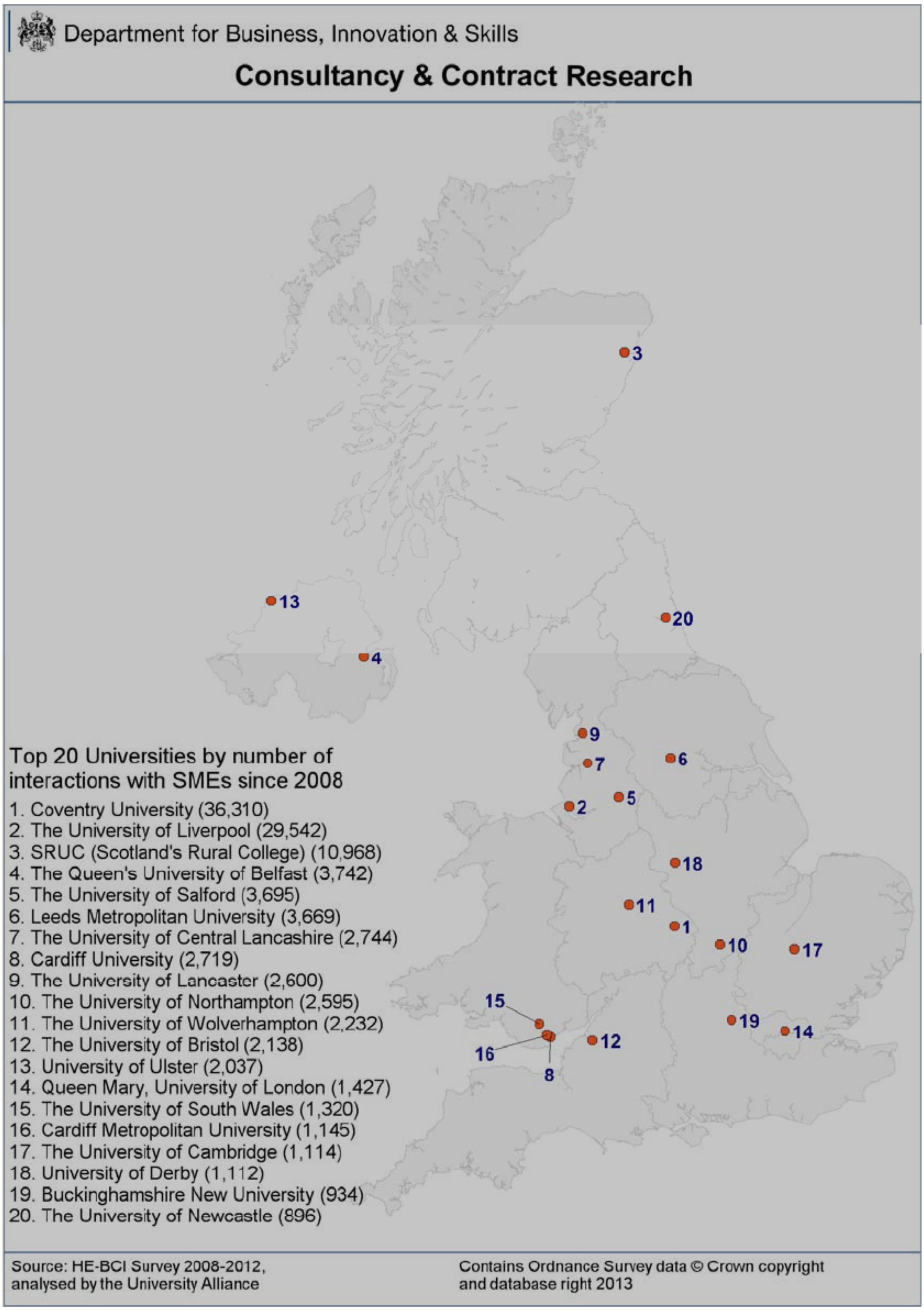
The variation is also evident when looking at the sources of funding for research and development. In 2012, in the United Kingdom, most of this funding was provided by the business sector, which funded £12.3 billion. However, businesses spent £4,086 million on research and development in Local Enterprise Partnership areas in the south east in 2012, compared with £282 million in Local Enterprise Partnership areas in the north east for example.

Despite business investment in research and development dominating total innovation spend in the United Kingdom, **the number of businesses engaged in innovative activity is low**. At present only about one in five firms are engaged in innovative activity[17] and this varies across areas shown in terms of the number of firms bringing new or improved products and adopting new processes to the market.

This geographic variation in innovative activity is driven by the location of larger sized firms. Only 35.4 per cent of firms with between 10 and 49 employees are engaged in innovative activity compared to 46.4 per cent for firms with between 100 and 249 employees (Innovation Survey). This gap has declined over time as advancements in Information Technology, labour market flexibility and increased demand for bespoke products have supported small firms' commercial prospects. However, more can be done to support small and medium sized firms to contribute to innovation, especially if future growth is going to come from fast growing Small and Medium size Enterprises (and the fastest growing are those that are driven by innovation). [18]

Across England, there is also wide variation in the levels of collaborative research between enterprises, research institutions and public institutions. This is illustrated in the map below which shows the collaboration of universities and Small and Medium size Enterprises on consultancy and contract research. As detailed in the smart specialisation strategy for England, **there is potential for universities to support small and medium sized enterprises through consultancy and contract research, and continued professional development.**

[16] Office of National Statistics (2011) United Kingdom Innovation Survey
[17] Office of National Statistics (2011) United Kingdom Innovation Survey
[18] BIS (2013) *Encouraging a British Invention Revolution: Sir Andrew Witty's Review of Universities and Growth*) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/249720/bis-13-1241-encouraging-a-british-invention-revolution-andrew-witty-review-R1.pdf



Source: BIS (2013) *Encouraging a British Invention Revolution: Sir Andrew Witty's Review of Universities and Growth*)

Use of European Regional Development Funds

Every Local Enterprise Partnership area has developed a strengths and weaknesses analysis of its local economy as a base upon which to make decisions on a limited number of investment priorities for innovation. The number of proposed priorities differs from area to area, depending upon their specific needs and the indicative allocation of European Structural and Investment Funds.

Local Enterprise Partnerships and partners have demonstrated a widespread awareness of the concept of Smart Specialisation in their European Structural and Investment Funds Strategies. Smart specialisation is a new innovation policy concept that takes as its starting point a thorough analysis of regional/local assets and technology. Using this evidence, a 'Smart Specialisation Strategy' is developed. This provides a framework within which to target public investment in research towards those activities that can best support innovation which promote economic growth.

The range of activities developed through this analysis can be broadly grouped into three areas which will form the priorities for 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**.[19] Interventions will target information failures which prevent Small and Medium size Enterprises from engaging in innovative activity. They are often unaware of the benefits of innovating and are deterred by the risk and costs associated with this type of investment and uncertainty about its returns.

- **Complementing domestic policies by providing leverage to encourage the commercialisation of research**. Interventions can include initiatives targeted at business formation often in the form of grant, loan or equity for start-ups or to support the development of new products and services for established businesses. Such interventions will help businesses manage the risk and uncertainty involved in the process of developing new products or services and bringing them to market.. European Regional Development Fund investment can reduce the risks for commercial investors, especially for smaller firms where there are barriers to entry to engage in new product development in the face of tight control over patents, and the costs of licensing.

- **Investments in physical infrastructure such as 'innovation hubs' and 'incubator centres' especially in areas that trail the Europe 2020 R&D target**.

Thematic objective 2: Enhancing access to, and use and quality of, Information and Communications Technology (ICT)

[19] BIS (2011) *Innovation and Research Strategy for Growth http://www.bis.gov.uk/assets/biscore/innovation/docs/i/11-1387-innovation-and-research-strategy-for-growth.pdf*

Development needs and opportunities

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

A low proportion of businesses have access to ultrafast broadband. While the roll out of both broadband and superfast broadband in England is generally good (at 76 per cent and 94.6 per cent respectively), at present only 10.1 per cent of businesses have access to broadband above 30 Mbps and only 5.8 per cent above 100 Mbps.

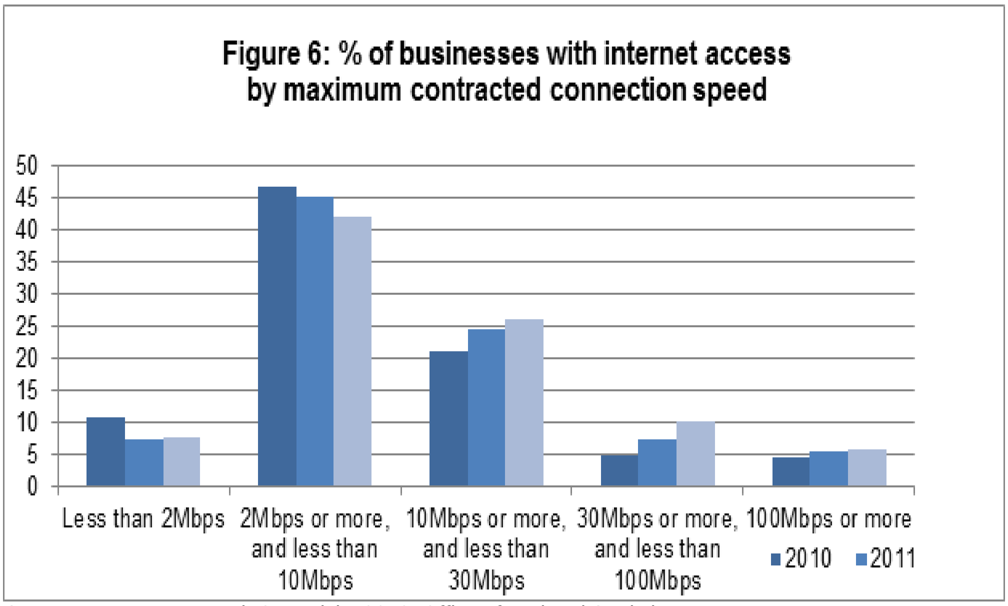


Figure 6: % of businesses with internet access by maximum contracted connection speed

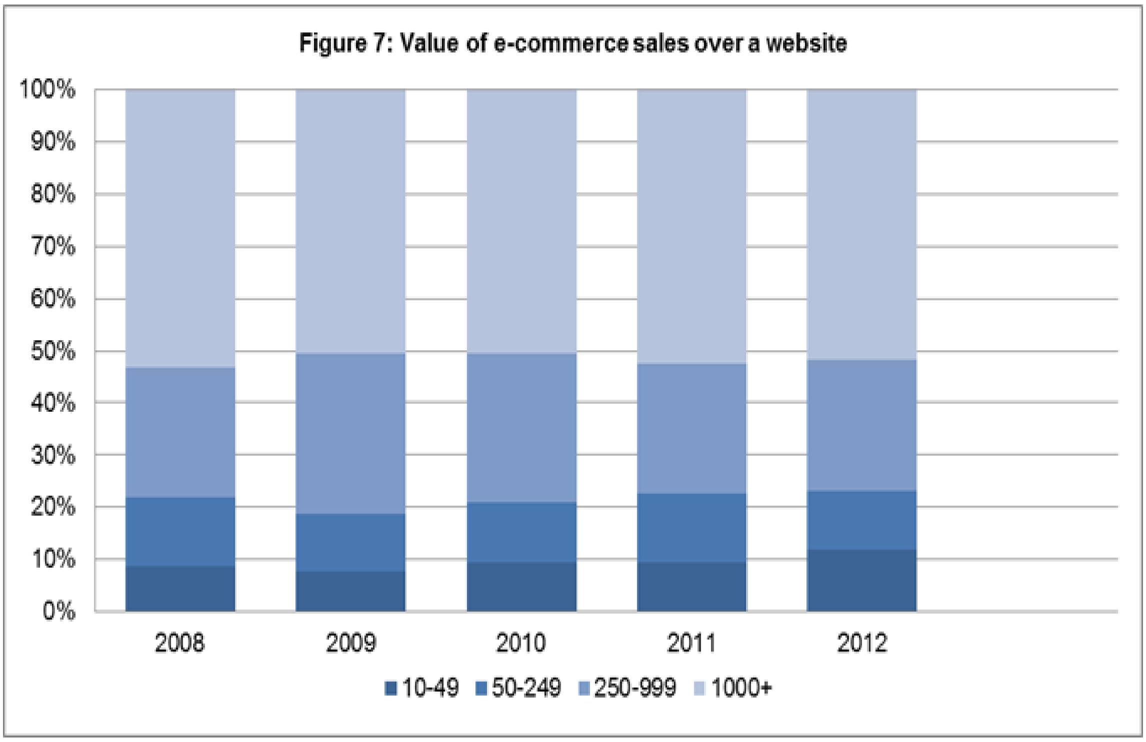
Source: E commerce and ICT activity 2012, Office of National Statistics

Small and medium sized businesses in particular are not exploiting opportunities related to Information and Communications Technology. Online sales have seen steady growth in recent years, both in terms of the proportion of businesses using websites for sales, and the value of website sales. There is, however, a group of businesses that have chosen not to embrace online technology. Over a third of United Kingdom Small and Medium size Enterprises still do not have a website and one in five are 'deliberately disconnected' from the Internet.[20]

Figure 7 shows the value of e-commerce activity supported by Small and Medium size Enterprises compared with larger firms. In 2012, for businesses with 10-49

[20] Lloyds (2012) *Britain's Digital Opportunity: A study of digital maturity within Britain's businesses and charities.* http://businesshelp.lloydsbankbusiness.com/assets/pdf/Britains-Digital-Opportunity.pdf

employees, the value of e-commerce sales over a website were 19.8 billion compared with 41 billion for those businesses sized between 250-999 and 84.9 billion for those with more than 1000 employees.



Use of European Regional Development Funds

Analysis of local needs and opportunities has identified two specific challenges that need to be addressed in relation to broadband infrastructure and more effective use of Information and Communications Technology amongst Small and Medium size Enterprises, as set out below. Together, the targeted use of the European Regional Development Fund will deliver important changes and results in areas where these development needs are identified.

Co-investment with private investors and other public funders in [21]broadband infrastructure where appropriate. Investment here would be to address network coordination failures. The investment costs of rolling out ultrafast broadband infrastructure are particularly high. Connectivity to ultrafast broadband can provide significant economic benefits for businesses and yet may not be commercially viable for the private sector. In these circumstances, public sector intervention may be necessary to address this market failure and reduce risks to the level that the private sector will tolerate. The Government envisages investment of this kind taking place only where a strong link to economic growth and clear market failure can be demonstrated.

Demand stimulation measures such as business support projects to increase awareness of the benefits of superfast and ultrafast broadband infrastructure

[21] ultrafast broadband provides more than 100Mbps

uptake. Businesses, particularly Small and Medium size Enterprises, may not have sufficient information to fully exploit the opportunities offered by superfast and ultrafast broadband and understand how developments in Information and Communications Technology can help improve their productivity, access to new markets and growth in business. So raising awareness and ability amongst Small and Medium size Enterprises will be a key priority for this objective.

Thematic objective 3: Enhancing the competitiveness of Small and Medium size Enterprises

Development needs and opportunities

Of the estimated 4.9 million private sector businesses in the United Kingdom at the start of 2013, 4.3 million (87.2 per cent) were in England.[22] Small and medium sized enterprises[23] make up nearly 99.9 per cent of these businesses. In the United Kingdom as whole they are responsible for 59.3 per cent of private sector employment and 48.1 per cent of private sector turnover at the start of 2013. Small and Medium size Enterprises drive forward growth through engaging in innovation, creating jobs and spurring competition.

However, there is a wide variation in the competiveness of Small and Medium size Enterprises. The majority of Small and Medium size Enterprise employers (68 per cent) aim to grow in the next two to three years, but most do not actually show growth in any given year. A segmentation of Small and Medium size Enterprise employers shows that, overall in 2012, 13 per cent of employers were classified as 'growers', 57 per cent 'stable' and 13 per cent 'shrinkers'. 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[24] definition and these were responsible for creating nearly a quarter of all new jobs over three years.[25]

There are various factors that limit an ability of a Small and Medium size Enterprises to grow:

- 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 Enterprise employers currently use business support due to difficulties in accessing information or advice; doubts about the benefits of business support, and concerns about the competence and trustworthiness of support providers.
- The internal capacity and capability of a business including their ability to innovate.

[22] Business Population Estimates (2013)
[23] Small and medium-sized enterprises (SMEs) are defined by employee size – as businesses with 0 to 249 employees
[24] Starting with at least 10 employees and annual average growth of at least of 20 per cent in employment or turnover over a three year period
[25] BIS (2013) *SMEs the key enablers of business success and the economic rationale for government intervention* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266304/bis-13-1320-smes-key-enablers-of-business-success.pdf

- 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 especially in a context of declining lending to businesses. [26] 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. Eighteen per cent of high growth firms consider funding to be the most important barrier to growth that they face, compared to just 13 per cent of other firms. Evidence suggests there has been a decline not only because of reduced supply but also reduced demand appetite for risk. [27]

These barriers are more acute for particular groups. Men in the United Kingdom are almost twice as likely to start businesses as women. The rates of female business ownership are particularly low in the United Kingdom. The scale of the United Kingdom enterprise 'gap' is illustrated by estimates suggesting that an additional 150,000 businesses would be created if rates of business ownership among women were the same as men, and an additional 900,000 businesses would be created annually if the United Kingdom had the same rates of women's business ownership as in the US. Ethnic minority groups can also have difficulty with access to finance. [28]

Exporting Small and Medium size Enterprises are more productive, innovative and resilient than non-exporting firms. Large firms account for the largest value of goods exports in the United Kingdom, but the contribution of Small and Medium size Enterprises is significant - contributing to 80 per cent of the quantity of exports. The Small Business Survey in 2012 showed that only 19 per cent of surveyed Small and Medium size Enterprises were exporting compared with 23 per cent who reported exporting in 2010. 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. [29]

However, there are a number of barriers to entering overseas markets which can translate into high upfront costs to business. These barriers include gaining access to contacts, navigating the legal and regulatory environment and coping with local culture and language. In turn, a lack of internal know-how and capabilities (including not knowing who to approach for information and expertise) and a lack of confidence means businesses may not be able to successfully overcome these barriers.

Use of European Regional Development Funds

[26] Bank of England (2013) *Trends in Lending* *http://www.bankofengland.co.uk/publications/Documents/other/monetary/trendsjanuary13.pdf*

[27] BIS (2013) *SMEs the key enablers of business success and the economic rationale for government intervention*. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266304/bis-13-1320-smes-key-enablers-of-business-success.pdf

[28] Enterprise Research Centre (2013*) Diversity and SMEs* *http://enterpriseresearch.ac.uk/default/assets/File/ERC%20White%20Paper%20No_3%20Diversity%20final.pdf*

[29] ONS (2011)Exporters and Importers in Great Britain http://www.ons.gov.uk/ons/rel/abs/annual-business-survey/characteristics-of-exporters-and-importers--gb--2011/sty-exporters-and-importers-in-great-britain.html

In response to the scale of challenge and identified needs, Small and Medium size Enterprises' competiveness is proposed 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**. Drawing on mid-term and national evaluations of the European Regional Development Fund in England in the 2007-2013 programmes, financial instruments have played a key role. Large scale evergreen or revolving equity and loan finance schemes, specialised equity schemes, grant based schemes, loan guarantee schemes, micro finance or temporary or transitional finance have played an important role in addressing access to finance challenges in parts of the country. Finance is important for funding investment and new start-ups and growing firms especially in the context of a decline in bank lending. It is difficult for companies at an early stage of development or companies starting out to access finance when they have little track record of delivery. Lenders and equity investors face uncertainty which can be mitigated by public sector investment. There may also be a lack of demand for finance from businesses in a particular area which will limit the number of private finance providers operating.
- Groups of Local Enterprise Partnership areas are looking to build on current **JEREMIE[30] schemes** (covering Local Enterprise Partnership areas in the North East, North West and Yorkshire and Humber) while others are looking to collaborate to set up **new financial instruments.**
- **Business support including advice services for entrepreneurship, commercialisation, and exports** to address information failure relating to businesses not having access to or awareness of information they require to compete in a new market or improve their productivity. This is especially relevant to under-represented groups.
- **Business support for new business start-ups.** This would be to address an information failure because of the lack of awareness amongst business owners of the benefits of obtaining external advice. This would be especially relevant to under-represented groups.
- **Incubation space:** Many Local Enterprise Partnership areas have plans to invest in business incubator space to address local market failures.

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

Development needs and opportunities

As discussed in the Partnership Agreement, England is confident that policies are in place to support the achievement of Europe 2020 targets in relation to greenhouse

[30] JEREMIE – Joint European Resources for Micro to Medium Enterprise – can be used to fund small and medium sized enterprises through loans, guarantees or equity. As enterprises eventually repay the finance, a revolving Holding Fund is created, so that more organisations can also then receive finance. See: http://ec.europa.eu/regional_policy/thefunds/instruments/jeremie_en.cfm

gas emissions reduction and renewable energy production. In the case of Greenhouse Gas emissions the Europe 2020 target has already been met in the United Kingdom. England itself has reduced gas emissions by 30.9 per cent from 1990 and is now pursuing the more ambitious target set for itself 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. The UK Carbon Environmental Goods and Services sector was valued at £128.1 billion in 2011/12 having grown by 4.8 per cent and 4.7 per cent in each of the previous two years. The value of this sector varies across activities (with manufacturing accounting for 20 per cent and research and development 5 per cent in 2010/11) and local areas (with four LEPs, London, South East, Greater Manchester and Leeds City Region accounting for 37 per cent of all sales value)

There is significant potential to continue to increase energy efficiency in England. Average household energy consumption in England and Wales decreased by 22.3 per cent between 2005 and 2011. Average household energy consumption varies across the country and has been lowest in Local Enterprise Partnership areas across the south west of the country for every year between 2005 and 2011. Over the period 2005 to 2011 differences between areas with the highest and lowest levels of average household energy consumption have decreased by 34 per cent. Likewise businesses have increased efficiency although 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.

There is also potential to increase renewable energy. In England, only 8.2 per cent of electricity generation is from renewables, with bio-energy being the largest contributor.

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 Fund 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 priorities includes:

Building the market in low carbon environmental technologies, goods and services: low carbon construction techniques; adopting Low carbon technologies to build the sector supply chain; focussing on goods and services with embedded low carbon technologies; and carbon capture, energy storage and waste to energy projects. There are a range of Low Carbon Financial Instruments being proposed, from investment in Low Carbon infrastructure working with Green Investment Bank, through to a Low Carbon Investment Fund being promoted by the University of East

Anglia supporting Access to Finance needs for Small and Medium size Enterprises in this sector.

- **Increasing energy efficiency and decentralised energy production:** Removing barriers to energy efficiency may include support for enterprises helping consumers improve energy efficiency; providing information on the benefits of energy investment; and overcoming misaligned incentives such as between landlords and tenants. Specific focusses include: energy efficiency via industrial processes; recovery of 'waste' heat Combined Heat and Power ; a move to renewable and low carbon fuels; low carbon innovation in relation to waste and building retrofit ; promoting low-carbon strategies, in particular for urban areas, including the promotion of sustainable multimodal transport and energy solutions and; energy efficiency especially whole building solutions.

Increasing innovation in and adoption of low carbon technologies linked to existing strengths and natural assets: European Regional Development Funds can be used to address the risks and uncertainty associated with investments in this area because of the time it takes for the commercial benefits of some types of investment to become clear. This may include knowledge transfer between Higher Education Institutes and Further Education Institutes and technology centres of excellence and test facilities.

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

Use of European Regional Development Funds

The National Flood and Coastal Erosion Risk Management Strategy for England provides a framework for domestic policy as well as delivery of the Flood Directive in England. Its overarching aim is to ensure that flooding and coastal erosion risks are managed and co-ordinated, so that impacts are minimised.

The Government recognises the need to target the European Regional Development Fund on economic growth. So whilst the planned use of these funds will be in line with Flood and Coastal Erosion Risk Management in areas of high risk of flooding, the use of this Thematic Objective will be considered only where there is significant need to stimulate economic development which might otherwise be inhibited by flood risk. The link to economic development will have to be clearly demonstrated.

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

England currently faces a number of challenges in achieving biodiversity targets and in achieving resource efficiency. For example a total of 781 sites had been determined as contaminated land under Part 2A in England (659) and Wales (122) by the end of March 2007. Of these, 35 were designated special sites (33 for England and two for Wales). Over 90 per cent of contaminated land sites in England (91 per cent) and Wales (98 per cent) had housing on it when the site was inspected.

The estimated total annual cost of water pollution to river and wetland ecosystems and natural habitats in England and Wales is between £716 and £1,297 million[31]; the cost of environmental damage from polluted urban wash-off has been estimated at £150 - £250 million. Soil degradation has been estimated by the Soil Strategy for England[32] as costing the economy £150-£250m per year (including through lost production).

Use of European Regional Development Funds

The Government recognises the need to target European Regional Development Funds on economic growth. So its use under this objective will need to demonstrate a clear link to the key aims of the programme. It will be therefore focused 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 Less Developed area 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. There is congestion in and around Cornwall’s main towns resulting in peak period delays with special difficulties in access to employment for those who cannot afford a car.

Use of European Regional Development Fund funds

Funding under this objective will aim to improve the economic viability of areas by linking them to transport infrastructure where a clear growth need can be demonstrated.

Thematic objective 9: Promoting social inclusion, combating poverty and any discrimination[33]

The Government’s ‘Plan for Growth’[34] and commitment to ‘Local Growth: Realising Every Place’s Potential’[35] seek to support investment in places and people to tackle

[31] Explanatory Memorandum To The Nitrate Pollution Prevention Regulations 2008 2008 No. 2349
[32] Defra (2009*) Soil Strategy For England Supporting Evidence Paper*
http://archive.defra.gov.uk/environment/quality/land/soil/documents/evidence-paper.pdf
[33] All figures are aligned with the England chapter of the European Social Fund
[34] (HMG 2011). See
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31584/2011budget_growth.pdf
[35] (HMG 2010) See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32076/cm7961-local-growth-white-paper.pdf

barriers to growth. The socio-economic analysis and recent data sets such as the Indices of Deprivation[36] demonstrate that even with wider economic recovery underway pockets of deprivation persists in certain areas even within areas achieving wider prosperity. This is particularly acute in some urban areas where the increasing role of London and the English cities as engines for economic growth often masks significant economic disparities and deprivation within 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 approach 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 Funding

The 2014-2020 European Structural and Investment Funds provide a mechanism for responding at a targeted, highly local level to the kind of multiple barriers to growth and disadvantage is experienced in certain areas. This mechanism is known as Community Led Local Development.

Community Led Local Development activities will support activity focussed upon the achievement of long-lasting socio-economic and environmental benefits in targeted areas. It allows for the focussing 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.

In line with the European Commission Regulation 1301/2013, European Regional Development Fund support for Community Led Local Development in England will be programmed under Thematic Objective 9 and, therefore, will directly address issues of social exclusion and poverty. It is also likely that it will contribute to the aims of: Thematic Objective 2 Information and Communications Technology; Thematic objective 3 Small and Medium size Enterprises' Competitiveness; Thematic Objective 4 Low Carbon Economy; Thematic Objective 6 Environment and Resource Efficiency; and Thematic Objective 7 Sustainable Transport (supporting access to employment and training opportunities).

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[36] (HMG 2010) See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6871/1871208.pdf

Section 1.3: Financial instruments

Experience from previous European Regional Development Fund programmes has shown that Financial Instruments are a powerful mechanism for targeting investment and levering in investment from the private sector. In the new programme the Government proposes to make use of more Financial Instruments with greater diversity to meet differing needs. Financial Instruments in England will, therefore, be developed around the four models summarised below.

(i) Access to finance – This will be the main focus of Financial Instrument activity providing equity, loan and mixed investment to Small and Medium size Enterprises. Delivery of access to finance activity will be developed and co-ordinated either in individual Local Enterprise Partnership areas or in collaboration across a number of Local Enterprise Partnership areas. Proposals on access to finance will include the following types of funds:

- Co-investment funds, e.g. for angel investment, venture capital or debt finance;
- Early stage growth, Equity, quasi-Equity, Loan or Mezzanine funds;
- Microloan funds delivered by Community Development Finance Institutions; and
- Proof of Concept funds.

There are already a number of existing delivery models operational in England's 2007-13 Programmes such as the fund-of-funds JEREMIE approach established in the North East, North West, and Yorkshire and Humber. These have enabled the creation of Financial Instruments that deliver both appropriate critical mass and economies of scale across larger areas. These will be built on in the 2014-20 Programme.

The European Investment Bank has indicated that it is willing to consider applications to provide match funding in the form of debt finance for fund-of-funds structures, although this will require a minimum of £50m public sector resources (including European Regional Development Funding). As an alternative or addition to European Investment Bank lending, other sources of match funding, such as banks, local authorities, Government funds, pension funds, and legacy from Financial Instruments in the 2000-2006 and 2007-2013 Programmes will be used as appropriate.

Where analysis does not support the need for a fund of funds structure to the above scale, smaller 'stand-alone' funds may be appropriate to deliver Access to Finance products to Small and Medium size Enterprises providing they can demonstrate an appropriate critical mass and economies of scale. Here, the European Regional Development Fund will be matched by private and / or public investment.

This Financial Instrument model will primarily deliver against Thematic Objective 3 Enhancing the Competitiveness of Small and Medium Enterprises Programme. It may also contribute to Thematic Objective 1 Strengthening Research and Technological Development and Innovation.

(ii). Urban development and energy efficiency (non-domestic) – This model builds on the experience gained establishing JESSICA[37] structures under the 2007-2013 Programme. It will enable Local Enterprise Partnership areas singularly or in collaboration to create Urban Development Funds to target the creation/refurbishment of urban infrastructure through urban regeneration and low carbon projects. Each Urban Development Fund could be a revolving mix of loan/equity/grant, managed by a private sector fund manager, or the European Investment Bank, but with Local Enterprise Partnership area/public sector involvement in the governance structures. European Regional Development Funding will be used to secure other forms of public or private sector funding and revenue streams.

Urban Development Funds will need to meet a minimum scale requirement of £20m, comprising ideally of a minimum of £10m European Regional Development Fund plus a similar amount of match funding from the European Investment Bank and/or other private/public investment as match funding. Where Urban Development Funds also include low carbon activity and sufficient scale, the European Investment Bank has indicated it could potentially provide co-finance to further supplement the investment or match fund the project.

Investment in this Financial Instrument model will deliver against the following Thematic Objectives: Thematic Objective 4 Low Carbon Economy; Thematic Objective 1 Strengthening Research, Technological Development and Innovation; and Thematic Objective 8 Promoting Employment.

(iii). Social housing (low-carbon retrofit) – This model supports energy conservation and generation in existing social housing via a revolving loan fund. Local Enterprise Partnership areas will use part of their notional European Regional Development Fund allocation either singularly or in collaboration to create a Financial Instrument utilising European Investment Bank and/or other private/public investment as match funding.

A financial intermediary will be procured, who will provide loans to Housing Associations or Local Authorities to undertake low-carbon retrofit activities to social housing under their management, using a combination of European Regional Development Fund and match funding. The Financial Instrument would be funded through European Regional Development Fund contributions from Local Enterprise Partnership areas who wished to participate in the model and who were ideally able to demonstrate a minimum project pipeline of £10m in their area..

Social Housing providers would borrow money from the Financial Instrument, to undertake retrofit works. Repayment of the loan would be either on a long-term, pay-as-you-save basis or from a Social Housing provider's own resources.

This Financial Instrument model will primarily deliver against Thematic Objective 4 Low Carbon Economy. It will also contribute towards Thematic Objective 9 Social Inclusion and Combating Poverty.

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[37] JESSICA – Joint European Support for Sustainable Investment in City Areas – another revolving fund designed to target investments in urban areas. See more at: http://ec.europa.eu/regional_policy/thefunds/instruments/jessica_en.cfm

(iv). Local Impact Funds – This model will promote investment into the social economy through loans to Social Sector Organisations. It will provide affordable finance to achieve sustainable social and economic outcomes together with support for social organisations to develop the financial, managerial, and business skills needed to apply for, manage, and repay investments.

Full details of this model are being worked up based upon the outcome of two pilot projects being undertaken in 2014. However, Local Impact Funds are likely to provide a mix of investment to Social Sector Organisations together with a programme of tailored business and investment readiness support to ensure that they are able to take on and manage repayable finance, thereby achieving sustainable social and economic outcomes for their areas.

Each Local Impact Fund could be a revolving mix of loan, equity and grant finance, managed by a private sector fund manager, but with Local Enterprise Partnership area / public sector involvement in the governance structures.

A range of investors will fund them and potential match contributors might include Social Investors, Local Authorities, Clinical Commissioning Groups, Universities, and Housing Associations. There is the potential for the model to involve both European Regional Development Fund and European Social Fund.

This Financial Instrument model primarily supports Thematic Objective 9 Social Inclusion and Combating Poverty Programme Priority. However, outcomes may also be achieved in: Thematic Objective 3 Small and Medium size Enterprises' Competitiveness; Thematic Objective 4 Low Carbon and; Thematic Objective 8 Employment. Proposals for Financial Instruments will be appraised and approved by the Managing Authority as part of the Operational Programme process. All Financial Instrument funds will be subject to the completion of an ex-ante assessment in accordance with the Common Provision Regulations[38]. This will be completed before the Managing Authorities decision to make the programme contribution is made.

[38] The Common Provisions Regulation is the main EU document which lays down the common and general provisions on the European Regional Development Fund, European Social Fund, the Cohesion Fund, European Agricultural Fund for Rural Development and European Maritime and Fisheries Fund; see *http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R1303&from=EN*

Technical annex section two: Territorial development

Section 2.1: Community Led Local Development

Community Led Local Development (Community Led Local Development) allows the European Structural and Investment Funds to target barriers to growth and disadvantage experienced in a very local area. The analysis in section 1 of this document identifies geographic disparities and market and information failures at the local level that restrict the ability of people, places and Small and Medium size Enterprises to strengthen economic growth and achieve social inclusion. In certain circumstances, Community Led Local Development offers an opportunity to address some of these issues though an integrated and tightly focussed approach in specific urban, rural and coastal areas.

Circumstances in which a Community Led Local Development approach might apply include:

- Stimulating targeted and deprived local economies to deliver jobs and growth in urban, rural and coastal areas;
- Actions to address a lack of amenities, community capacity/ social capital and low levels of enterprise, including social enterprise and the development of start-ups (including high growth start-ups);
- Poor linkages between areas of deprivation and areas of high economic growth and job opportunities;
- Protection of the environment and promotion of local energy plans.

During the development of local European Structural and Investment Fund strategies, local partners and Local Enterprise Partnerships were asked to consider the use of Community Led Local Development. As set out in section 1.2 above, successful proposals will be funded under Thematic Objective 9 in both the European Regional Development Fund and European Social Fund Operational Programmes, although activities can address needs identified through other thematic objectives, for example those focussed upon:

- Innovation and social innovation (Thematic objectives 1 and 9)
- Access to, use and quality of ICT (Thematic objective 2)
- Competitiveness of Small and Medium size Enterprises and promotion of entrepreneurship (Thematic objective 3)
- Resource efficiency and supporting the shift towards a low carbon economy (Thematic objectives 4 and 6)

Community Led Local Development funded by Growth Programme resource will expand on the LEADER[39] approach used in the 2007-2013 Rural Development

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[39] LEADER is a European Union local development method which allows local partners to develop an area's development potential

Programme for England. It will be based on a partnership of public, private and civil society sectors coming together to form a Local Action Group that will develop and drive the delivery of a Local Development Strategy .

Coordination and administration

Community Led Local Development should be focussed on the specific needs and opportunities of a particular area, typically much smaller than the average Local Enterprise Partnership area, and be based on communities with a population size of between 10,000 and 150,000[40]. Plans could be related to a particular theme, such as urban mobility, local energy plans or labour market issues, or to a particular target group, such as young people or migrants. Community Led Local Development can be used across urban, rural and coastal areas and also in Less Developed, Transition and More Developed areas.

Local partners in consultation with the Managing Authority will agree whether Community Led Local Development is an appropriate mechanism to respond to the development needs identified in each European Structural and Investment Funds Strategy. Where there is such a case the Managing Authority will work with the Local Enterprise Partnership and local partners to commission Community Led Local Development type activity and invite expressions of interest for Local Action Groups to develop a Local Development strategy. The following issues will be considered when assessing strategies:

- fit with the local European Structural and Investment Funds strategy;
- clear socio-economic rationale underpinning proposed use of Community Led Local Development in targeted geographic areas;
- clear explanation as to the rationale for the use of Community Led Local Development over and above mainstream programme activity;
- demonstration of value for money;
- identification of thematic objectives and results and outputs;
- identification of the population to be targeted;
- demonstration of robust governance and partnership arrangements;
- demonstration of capacity and resource.

Local Action Groups

A Local Action Group that brings together key partners is an essential feature of the Community Led Local Development approach. The responsibilities of Local Action Groups will include, as a minimum:

- the design and implementation of Community Led Local Development strategies;
- the decision to select a lead partner in administrative and financial matters or to come together in a legally constituted common structure;
- building the capacity of local partners to develop and implement activities including fostering their project management responsibilities;

[40] Subject to agreement of the United Kingdom Partnership Agreement.

- drawing up a non-discriminatory and transparent selection procedure and objective criteria for the selection of projects which avoid conflicts of interest, ensure that at least 50% of the votes in selection decisions are cast by partners which are not public authorities, and allow selection by written procedure;
- ensuring coherence with the community led local development strategy when selecting projects, by prioritising those operations according to their contribution to that strategy's objective and targets;
- preparing and publishing calls for proposals or an ongoing project submission procedure, including defining selection criteria;
- receiving and assessing applications for support;
- selecting projects and fixing the amount of support and, where relevant, presenting the proposals to the body responsible for final verification of eligibility before approval; and
- monitoring the implementation of the community led local development strategy and the projects supported and carrying out evaluation activities linked to that strategy.

Any additional tasks are subject to discussion and agreement by the Managing Authority.

Funding

The funding for Community Led Local Development will come from the Local Enterprise Partnership area's notional allocation. In order to provide an indication of scale, those Local Enterprise Partnership areas that wish to use Community Led Local Development should consider a minimum total public sector investment of €3 million over the Community Led Local Development Strategy period envisaged. Subject to a robust strategy and delivery plan being set out at local level, local partners may consider allocating up to 5% of their notional European Structural and Investment Funds allocation to Community Led Local Development type activity.

European Structural and Investment Funds can be used to support Community Led Local Development through the following structures:

European Structural and Investment Fund	**Area targeted**
European Regional Development Fund/ European Social Fund	Urban based Local Action Groups
European Regional Development Fund/ European Social Fund/ European Agricultural Fund for Regional Development	Urban/Rural Local Action Groups
European Regional Development Fund/ European Social Fund/ European Agricultural Fund for Regional Development	Non LEADER rural based Local Action Groups

Government is seeking an integrated multi-fund approach at local level. Where justified, government will support the identification of a lead fund arrangement so that management and administration costs (of up to 25% of the total investment identified for Community Led Local Development) can be drawn from one fund.

Government has committed to align any proposed Community Led Local Development under the Growth Programme funded by European Regional Development Fund, European Social Fund and European Agricultural Fund for Regional Development with any future LEADER and European Maritime and Fisheries Fund Fisheries Community Led Local Development investment, using non-Growth Programme resource to align and simplify implementation.

It is envisaged that non-Growth Programme Community Led Local Development under European Agricultural Fund for Regional Development LEADER or European Maritime and Fisheries Fund Local Action Groups may bid into Growth Programme resource to supplement their respective Local Action Groups activity where appropriate. Such bids will be subject to the agreement of Managing Authorities and local partners.

The Managing Authority will consider reimbursing the preparatory costs of developing and designing local development strategies and for facilitation and capacity building activity. This will be subject to activities and expenditure being compliant with European Union rules, and to the funding of retrospective activity being agreed within the European Regional Development Fund Operational Programme.

Section 2.2: Sustainable Urban Development

As set out in the United Kingdom chapter of the Partnership Agreement, in order for actions for sustainable urban development to count towards the 5% spend required in the European Regional Development Fund Regulations, tasks relating at least to the selection of operations must be delegated to urban authorities. London will be designated as an Intermediary Body reflecting its relative size and the fact that the Greater London Authority has an established designation as an Intermediate Body for the 2007-2013 European Regional Development Fund Operational Programme. Whilst this in itself will deliver the 5% minimum, the English Managing Authority is keen for cities to deliver such development as well.

The Government is giving England's cities new powers, freedoms and control over funding streams through City Deals and is very keen to build on these arrangements to enable United Kingdom cities to participate in the European Union's Urban Development Network.

Urban authorities responsible for urban areas with a population in excess of 600,000 (according to the latest primary urban area dataset[41]) will therefore be invited to submit proposals to Government in line with the provisions set out in Article 7 of the European Regional Development Fund Regulation to deliver integrated actions for sustainable urban development. In England, cities will be invited to submit urban

[41] http://www.citiesoutlook.org/population/table

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, 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 Union’s Urban Development Network.

There will be a separate priority axis within the English European Regional Development Fund Operational Programme for sustainable urban development.

Technical annex section three: Partnership

Section 3.1: Preparation of the European Regional Development Fund operational programme

The Government has engaged extensively with partners during the development and design of the England 2014-2020 European Structural and Investment Fund Growth Programme.

The process of consulting with partners began substantively in April 2012 with an informal written consultation. This was followed by a series of road show events that included over 1000 local partners across England in the November and December of 2012 to seek views on a new streamlined approach for delivering the European Structural and Investment Funds to devolve power and the funding down to local areas.

The Government proposition was that Local Enterprise Partnerships should work with partners to design and deliver local European Structural Investment Fund strategies based on the Europe 2020 priorities and menu of Thematic Objectives in accordance with local priorities, needs and opportunities. There was general support for the approach and some particular asks from partners for:

- Support for flexible working across functional economic areas and for new opportunities to collaborate.
- Advice from Managing Authorities through the local teams to be coordinated, consistent and of a high standard.
- Communications engagement to be clear and co-ordinated.
- The requirements on Local Enterprise Partnerships for partnership, consultation and collaboration to be clearly set out as soon as possible.
- Clear mechanisms to be put in place to ensure that partners are able to take part in developing the European Structural Investment strategies.
- Lessons learnt and best practice from current programmes and other areas to be incorporated into programme design.
- Pooling and capturing of existing local and national expertise, knowledge and ideas to inform local strategies.
- Government to take action to ensure best use of national and local funding sources.
- Government to take bold and innovative steps to harmonise and simplify the Funds in order to align them administratively.
- Allocations methodology to be made transparent.
- An effective transition from the current to future programmes.
- Rural and fisheries interests to be safeguarded.

Following this input, a formal consultation on the delivery of 2014-20 European Structural and Investment Funds was undertaken in spring 2013.

In summer 2013 Government commissioned each Local Enterprise Partnership area to produce a local European Structural and Investment Funds strategy based on Europe 2020 strategic priorities, national policy goals and local needs and opportunities. These strategies were developed by local partners in two stages and submitted to Government in October 2013 and January 2014.

The Government's approach of asking all Local Enterprise Partnership areas to produce European Structural and Investment Funds investment strategies against an indicative allocation of European Regional Development Funds and European Social Funds has produced a locally coherent and prioritised set of strategies which have provided the building blocks for the European Regional Development Fund and European Social Fund operational programmes.

In producing these local European Structural and Investment Funds strategies, Local Enterprise Partnerships have engaged with and consulted the widest possible range of local partners.

Section 3.2: Implementation, monitoring and evaluation of the operational programme

The partnership working arrangements for delivery 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. This acts as a shadow national Programme Monitoring Committee for European Funds in the England Growth Programme. Following agreement by the European Commission of the Operational Programmes for each Fund, the Growth Programme Board will review its membership and terms of reference and act as the Programme Monitoring Committee for the implementation of European Regional Development Fund and European Social Fund European Structural and Investment Funds.

The Programme Monitoring Committee will be chaired by the Managing Authority for the Operational Programmes and the secretariat will be provided by the Managing Authority. It is envisaged that it will meet four times a year. Membership will be drawn from a wide range of partners across the public, private and voluntary sectors. The remit of the Programme Monitoring Committee is to oversee the Programmes in line with the requirements set out in the regulations.

The Programme Monitoring Committee for the Structural Funds will be supported by a number of sub-committees. It is envisaged that these will include:

- Thematic committees covering Innovation, Small and Medium size Enterprises, Low Carbon,Skills, Employment and Social Inclusion;;
- Cross-cutting thematic committees for equalities and sustainability;
- Functional committees for communications, evaluation and other relevant

topics;
- A Technical Assistance sub-committee; and,
- A Performance and Accountability sub-committee to oversee delivery of the programme, guard against conflicts of interest, and provide a forum for holding both partners and the Managing Authority to account.

It is further envisaged that the Structural Funds Programme Monitoring Committee will be supported by 39 Local Sub-Committees, one for each Local Enterprise Partnership area. Government will ask Local Enterprise Partnerships to co-ordinate the Local Sub-Committee and partners in their area in accordance with the Code of Conduct on Partnership. Local Sub-Committees will be chaired by local partners with the Managing Authority as deputy. They will report to the Programme Monitoring Committee and by extension to its sub-committees. Their membership must include the full range of local partners as set out in European Commission regulations.. The exact format of Local Sub-Committees and its fit with local governance is a matter for partners provided arrangements are compliant with European Commission regulations.

The Rural Development Programme will be overseen by the European Agricultural Fund for Regional Development Programme Monitoring Committee. The Growth Programme Board (National Programme Monitoring Committee) will advise the European Agricultural Fund for Regional Development Programme Monitoring Committee on issues concerning growth, such as those that may require modifications to be made to the Rural Development Programme.

Partnership working: roles and responsibilities

The successful delivery of funds within the European Growth Programme will depend on close working between the Managing Authority and partners. Local Enterprise Partnerships will co-ordinate and bring in local partners on a fully inclusive basis and there will be a clear split of roles and responsibilities between local partners and the Managing Authority, supported by close and frequent communication at working level. The Local Sub-Committee 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 work 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 Growth Programme, Local Enterprise Partnerships and partners will be responsible for coordinating the production and delivery of European Structural and Investment Funds strategies in each Local Enterprise Partnership area. Local European Structural and Investment Funds strategies will set out the needs and opportunities in each Local Enterprise Partnership area (which will reflect the areas Strategic Economic Plan) and the resulting use of allocated European Funds. This wide, Local Enterprise Partnership organised, partnership will collectively bring forward projects which deliver the best balance of outcomes and agree those with the Managing Authority.

In outline government envisages the process working as follows:

- Local partners will undertake a role in publicising and communicating opportunities for investment; the Managing Authority will ensure requirements on publicity and communications are met.
- Local partners coordinated by the Local Enterprise Partnership will promote desired investments for key local priorities and how they might be met through the Funds on a basis agreed by the Local Sub-committee. They will develop a pipeline of projects..
- The Local Sub-committee will develop and agree an Annual Implementation Plan and will work with the Managing Authority on developing and designing calls for applications for their area in line with European Union regulations. The Local Sub-Committee will agree with the Managing Authority what calls should take place and when: the Managing Authority will ensure compliance and carry out the calls agreed with the Local Sub-Committee.
- The Managing Authority and the Local Sub-Committee will receive all outline applications. The local Sub-Committee will discuss strategic fit, value for money and fit with objectives in their local European Structural and Investment Funds strategy. It will also consider the technical appraisal carried out by the Managing Authority. It will then agree which outline applications it regards as priorities and areas in which further work may be needed, for example on compliance. The Managing Authority will then, where appropriate, invite full applications.
- All applications which reach this (full) stage will be considered by the Managing Authority and the Local Sub-Committee. The Local Sub-Committee will also consider the full technical appraisal carried out by the Managing Authority. Again the Local Sub-Committee will agree which bids it regards as priorities. The Managing Authority will then issue funding agreements on the basis of discussion with the Sub-Committee. The Managing Authority will not approve any operations that have not been agreed as meeting the European Structural and Investment Funds strategy by the Local Sub-Committee; nor will it not approve any operation which is not compliant.
- The Local Sub-Committee will be responsible for overseeing the delivery of investments and outputs, and as such will have access to project data for its area (for example, spend, milestones and results).
- The Managing Authority will be responsible for managing tenders and contracts.
- The Local Sub-Committee will have the ability to challenge the Managing Authority and beneficiaries, and will be informed about any corrections or sanctions arising from irregularities.
- The Local Sub-Committee will be engaged in programme evaluation, which will be carried out by the Managing Authority.

Managing Authorities will (amongst other tasks) ensure that:

- A single standardised business process is used for all European Social Fund

and European Regional Development Fund operations using standard documentation and a shared information system;
- Close coordination between the European Social Fund and European Regional Development Fund. The system will enable collaboration across Local Enterprise Partnership geographic areas and enable applicants to bring funds together to achieve desired outcomes. For example, local communities might support new businesses in a food supply chain, using European Regional Development Funds to provide support for local companies, European Social Funds to help build local skills and European Agricultural Funds for Regional Development to support training;
- Coordination between the governance of the structural funds and the European Rural Development Fund.

Section 3.3: Project selection

The national Programme Monitoring Committee will consider and approve the project selection criteria. The Managing Authority will apply these selection criteria to the assessment and appraisal of applications on the basis of discussion with the Local Sub-Committee as described above.

The Managing Authority will operate a two-stage application process in response to calls for applications:

- Stage 1 – Outline Application: Outline application covering purpose of project, planned outputs and intended outcomes, strategic fit and value for money.
- Stage 2 – Full Application: Full technical application with the Managing Authority undertaking a full technical appraisal against all of the criteria.

Selection criteria

In order to ensure proposed projects are tested robustly and consistently, they will be tested against all the criteria at both the Outline Application and Full Application Stage, taking account of the level of information applicants will be asked for at each stage.

The selection process will have a two-stage approach.

- **Gateway Criteria Assessment:** ensuring projects meet the ***basic eligibility*** criteria for European Structural and Investment Funds. Gateway criteria set out the minimum eligibility requirements which must be met in order for any project to be considered for European Structural and Investment Fund investment. Proposed projects which fail to meet any aspect of the minimum criteria will be rejected and will not be considered for European Structural and Investment Fund support. However the Managing Authority will always be willing to work with projects on the application of the criteria.

- **Core European Structural and Investment Funds Selection Criteria:** Projects meeting Gateway criteria will progress to assessment against

European Structural and Investment Funds core selection criteria. This will determine the degree to which the project proposal contributes to meeting the performance indicators, outputs and impacts of the programme. This stage will inform the prioritisation of investments. Below are the outline criteria that will apply at each stage. Full criteria will be developed in 2014.

Gateway criteria

1. Applicant is eligible and financially viable;
2. Proposed project and associated expenditure must be eligible;
3. Evidence that the project meets the objectives set out in the Operational Programme.

Core selection criteria

1. Strategic fit
2. Value for money
3. Management and control
4. Deliverability
5. Procurement tendering
6. State Aid compliance
7. Publicity
8. Contribution to cross cutting themes

Local Sub-Committees will consider fit with their area's wider Strategic Economic Plan to inform prioritisation of project applications.

Section 3.4: Technical Assistance

Technical Assistance provides support to facilitate robust governance, accountability and partnership engagement to enable the efficient and compliant management and implementation of the European Regional Development Fund Operational Programme. This in turn will support the delivery of programme targets and compliance with the relevant European Union regulations.

The Technical Assistance priority axis will cover Less Developed, Transitional, and More Developed areas broken down as follows:

- Less Developed – Cornwall and the Isles of Scilly
- Transitional – Tees Valley and Durham, Cumbria, Lancashire, Merseyside, East Yorkshire, North Lincolnshire, South Yorkshire, Lincolnshire, Shropshire and Staffordshire and Devon
- More Developed – The rest of England.

The England Growth Programme 2014-2020 represents a new approach in the delivery of the European Structural and Investment Funds in England. The Managing Authority proposes to make up to half of the European Regional Development Fund and European Social Fund Technical Assistance budget available to 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. The Government plans for Technical Assistance to be made available to partners to support agreed activities in line with European Union regulations.. It should be made available by means of open calls and will be appraised using the same criteria as other European Structural and Investment Fund projects.

Technical annex section four: Co-ordination with other funds

Section 4.1: Other European Union funds

Coordination between the European Structural and Investment Funds is an overarching principle of the European Structural and Investment Funds Growth Programme which will combine the European Regional Development Fund and the European Social Fund and part of the European Agricultural Fund for Rural Development. It will also be aligned with European Agricultural Funds for Rural Development not allocated to the Growth Programme and the United Kingdom's European Maritime and Fisheries Fund. Bringing the Funds together in this way will promote much greater impact, coherence and flexibility in the way money is invested..

The Common Strategic Framework cites the following Funds as being areas where there needs to be coordination:

- Common Agricultural Policy and the Common Fisheries Policy
- Horizon 2020[42] and other centrally managed European Union programmes in the areas of research and innovation
- New Entrants Reserve 300 demonstration funding[43]
- LIFE[44] and the environmental acquis
- ERASMUS for All[45]
- Programme for Social Change and Innovation [46]
- Connecting Europe Facility (CEF)[47]
- Instrument for Pre-Accession, European Neighborhood Instrument and European Development Fund[48]

European Investment Bank

The European Investment Bank is already a major co-financer of financial instruments in the 2007-13 England programme. The four-model delivery mechanism for delivery of financial instruments in the 2014-20 England programme is described in section 1.5 on Financial Instruments. Three of these models may utilise European Investment Bank funding. Discussions between the European Investment Bank, Managing Authority, Local Enterprise Partnerships and partners to develop the individual Financial Instruments are on-going.

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[42] COM(2011) 809 final
[43] OJ L 290, 6.11.2010, p. 39–48 2010/670/EU: Commission Decision of 3 November 2010 laying down criteria and measures for the financing of commercial demonstration projects that aim at the environmentally safe capture and geological storage of CO_2 as well as demonstration projects of innovative renewable energy technologies under the scheme for greenhouse gas emission allowance trading within the Community established by Directive 2003/87/EC of the European Parliament and of the Council (2010/670/EU) OJ L 275, 25.10.2003, p. 32–46.
[44] COM(2011) 874 final.
[45] COM(2011) 788 final.
[46] COM(2011) 609 final.
[47] COM(2011) 665 final.
[48] COM(2011) 838 final; COM(2011) 839 final; COM(2011) 837 final.

In addition to the above Funds, the European Territorial Cooperation Programmes and Atlantic Strategy provide further opportunities for complementary investment with actions supported through the England European Regional Development Fund Operational Programme

Section 4.2: National funds

European Union rules require Structural and Investment Funds to be matched with domestic funding. Some of this will come from Government. The Local Growth Fund will provide a potential source of match funding for some Thematic Objectives when it comes on stream in April 2015. Match funding will also be available from United Kingdom Trade and Investment, the Manufacturing Advisory Service and Growth Accelerator.

In addition, a range of other public sources of match funding will be available nationally and locally to support implementation of the European Regional Development Fund Operational Programme. Government is keen to see maximum leverage of private match funding to support delivery, and private sector sources identified in Local Enterprise Partnership areas' European Structural and Investment Fund Strategies during 2014-2020.

Technical annex section five: Administration

Section 5.1: Simplification

In developing simplified administrative arrangements for the 2014-2020 period, particular emphasis has been placed on lessons learned from the evaluation of the 2007-2013 programmes to inform future systems. Government has considered this from both a partner ‘user’ and Managing Authority perspective.

Beneficiary feedback has indicated that partners wish the Managing Authorities to develop a process and approach that includes the following features:

- Clearly defined roles and responsibilities;
- An approach aligned across different Funds;
- Standard documentation within a single business process, where possible;
- Clear and unequivocal guidance and;
- Better access to information.

In response, the Managing Authority has designed the business process according to the following principles:

- **A single process** for Structural Funds (European Regional Development Fund and European Social Fund) including a single point of access, single application documentation/process whilst maintaining separate management of funds
- 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 accessible and explicit information and guidance so that there are no surprises for the applicant/beneficiary
- **Clearly defined roles and responsibilities** at all stages of the process 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 Information Technology system holding all relevant information and operating on the principle of ‘*collect once, use often’*.
- **An Information Technology system designed around the needs of the business process,** and capable of meeting the varying needs of the Programme life cycle
- **Review and continuous improvement** a key component of the process
- **Future-proof systems** designed to survive possible structural and organisational changes.

Technical annex section six: Cross-cutting principles

The partnership agreement sets out the overall approach to the horizontal or 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.

Four Thematic Objectives within the Operational Programme directly support the delivery of sustainable development. However environmental sustainability will also be embedded into the assessment and delivery of programme activities across all thematic areas.

Delivering the Cross Cutting theme

The European Union's Common Provisions Regulations cover environmental protection; resource efficiency, climate change mitigation and adaptation, biodiversity, disaster resilience, risk prevention and management. As appropriate, proposals must demonstrate how these positive environmental aspects will be enhanced and negative effects minimised, at strategic and project levels.

The cross-cutting theme reflects the 'Polluter Pays Principle' - the party responsible for producing pollution should pay for the damage to the natural environment.
As appropriate, proposals must show how they support moving towards a low carbon economy; for example by adhering to United Kingdom Government buying standards and through using nationally recognised building and civil engineering sustainability standards.

Adaptation and local resilience to a changing climate must be integrated within proposals as appropriate, specifically where these strengthen local economic development by managing risk, avoiding disinvestment and safeguarding growth.

Green infrastructure provides potential for joint social, economic and environmental benefits. It also supports local and strategic approaches to climate change adaptation. In considering capital investments, proposals must identify how these support green infrastructure as appropriate within and, where relevant, beyond their boundaries.

As appropriate, investments supported by the European Regional Development Fund should demonstrate how they contribute to the European Union's commitment to halting biodiversity loss and degradation of ecosystem services.

Capital proposals should use recognised standards - the Building Research Establishment Environmental Assessment Method (BREEAM) and The Civil Engineering Environmental Quality Assessment and Award Scheme (CEEQUAL) – to ensure that environmental sustainability is considered throughout the whole lifecycle of a project and a quality threshold for investments, drive innovation and support the low carbon supply chain:

- New build projects - BREEAM Excellent
- Refurbishment projects – BREEAM Very Good
- Infrastructure Projects – CEEQUAL Very Good

To achieve this, investments must demonstrate a proactive approach, maximising energy efficiency and minimising water consumption and drainage off site.

Suggested Deliverables

Environmental sustainability should be part of developing all projects. The focus for the thematic objectives for the cross cutting themes is:

1. **Research, development and innovation -** Capital investment in new buildings should where possible achieve a BREEAM rating of Excellent; refurbishments should where possible achieve Very Good.
2. **Small and Medium size Enterprises' competitiveness -** In providing support for Small and Medium Enterprises, applicants should demonstrate how resource efficiency is embedded into the business support offer.
3. **Low carbon –** Greenhouse Gas reduction projects must have a transparent methodology for calculating and monitoring emissions, with actual and auditable reductions in line with the Climate Change Act 2008.
4. **Climate change and protecting the environment and promoting resource efficiency –** Green Infrastructure projects will require a wider strategic overview to ensure maximum benefits, and provide a future management plan. Applications for projects delivering carbon savings will need to include a coherent and transparent methodology for measuring the savings.
5. **Skills –** Relevant proposals will need to demonstrate how they will support Small and Medium size Enterprises on climate change mitigation and

adaption, including support for behavioural change and promoting growth in adaptation goods and services.

Section 6.2: Equal opportunities and non-discrimination

United Kingdom Legal context

All European Structural and Investment funds will promote equality in accordance with European and domestic legislative and regulatory requirements. The 2010 Equality Act provides a framework to effectively tackle disadvantage and discrimination. The Act protects nine characteristics – age, disability, gender reassignment, marital or civil partnership status, pregnancy and maternity, race, religion and belief, sex and sexual orientation. The public sector Equality Duty applies in the delivery of European funding, and means that delivery of the Operational Programme should consider the needs of all individuals and have due regard to the need to eliminate discrimination, advance equality of opportunity, and foster good relations between different people when carrying out their activities.

Equality Principles

The broad equality principles of the Programme are:

- no beneficiaries are excluded from participation in the Programme on the grounds of their protected characteristics
- the needs of all potential beneficiaries are considered at project design stage in order that the service is appropriately delivered
- all physical regeneration, i.e. new buildings and upgrading existing premises, meets minimum accessibility requirements (Equality Act, which superceded the Disability Discrimination Act, Part M of Building Regulations and recommended British Standards for accessibility)
- services are responsive to the needs of all communities and under-represented groups
- support is targeted towards under-represented communities where relevant
- responsiveness to, and inclusiveness of, under-represented groups in delivery and management

Investments

- Lessons learnt from previous programmes show that equality should be embedded throughout a project - from design to evaluation. Therefore this message will be clearly communicated to projects and applicants will be supported by providing guidance on how to address equality issues, and promoting sharing of best practice. Many investments will have some common generic functions - recruitment and employment, communications, marketing, procurement, monitoring and evaluation – investments will therefore consider the equality impacts of these functions, how any equality risks can be mitigated and how equality can be promoted during delivery.

Projects will be encouraged to ensure employment opportunities are inclusive, to adopt equality and family-friendly policies.

- Local European Structural and Investment Fund Strategies have set out evidence around equality across local areas. Therefore account has been taken of under-representation and gaps in provision, and proportionate efforts will be taken to address these groups through project implementation. Partners with expertise in equality have helped prepare local European Structural and Investment Fund Strategies and will assist as necessary throughout the delivery and monitoring of programmes.

Thematic priority considerations

- **Innovation** – innovation is common in the sector areas of science, technology and engineering, all of which are employment sectors with a particular gender bias which can disadvantage women. Therefore projects under this theme will be expected to demonstrate appropriate measures to mitigate this bias. Physical infrastructure will meet minimum accessibility requirements. Where possible, good practice will be achieved to add quality to investments, by using accessibility toolkits and undertaking pre- and post-build access audits.

- **Information and Communications Technology (ICT)** – there are likely to be few significant impacts in relation to broadband access and higher internet speeds – in general, Information and Communications Technology issues are likely to impact more on older people and disabled people, so digital infrastructure investments will be accompanied by relevant skills support and appropriate adaptations.

- **Small and Medium size Enterprises** – the focus on growth and entrepreneurial culture means there are likely to be more significant equality impacts - reducing barriers to entrepreneurship is important as some groups lack entrepreneurial ambition and feel that enterprise is not for them. Some groups have additional barriers – for example often women and black and minority ethnic groups are under-represented in enterprise compared to the wider population, so investments will actively address barriers to business start-up for such groups.

- **Low carbon, climate change and environment protection** – there are likely to be few significant impacts for these thematic objectives, however investments will still be expected to promote equality where appropriate.

- **Employment / labour mobility, inclusion and skills** – there are likely to be significant impacts for these Thematic Objectives. However, these themes are more directly delivered by European Social Fund than European Regional Development Fund.

Section 6.3: Disability

People with disabilities and health conditions face particular discrimination and disadvantage in the labour market. About half of disabled people of working age are not in employment. Of these two in five would like to work. In January to March 2013, there were around 3.9 million people in the United Kingdom with a long-term health problem or disability that were in employment; while around 3.1 million were economically inactive and around 0.5 million were unemployed (age 16-64).[49]

Disabled people are more than twice as likely to not hold any formal qualifications than are non-disabled people. Disabled people are also less likely to participate in adult learning than non-disabled people. In the last three months about 39.6% of non-disabled people aged 16-64 participated in adult learning compared with 30.2% of disabled people.[50]

All activities funded by the programme will need to be accessible to disabled people and be responsive to their individual needs.

Section 6.4: Ethnicity

Certain ethnic minority groups (notably those from Pakistani, Bangladeshi and Black African groups) face greater difficulties in accessing work compared to the majority of the population.

The employment rate for people (aged 16-64) of white ethnic origin in England is 73.4%.[51] The employment rate for all ethnic minorities is 59.4%. Among ethnic minorities the lowest employment rate is for people of Pakistani or Bangladeshi ethnic origin at 48.4%, and the highest is for people of Indian ethnic origin at 69.5%. The employment rate for ethnic minority women is 68.8%, and is particularly low for women of Pakistani or Bangladeshi origin at 29.3%.

The unemployment rate for people (aged over 16) of white ethnic origin in England is 6.9%.[52] The employment rate for all ethnic minorities is 13.9%. Among ethnic minorities the highest unemployment rates are for people of Pakistani or Bangladeshi ethnic origin at 18.1% and Black or Black British groups at 17.6%. The rates are particularly high for Black or Black British men at 20.1% and women of Pakistani or Bangladeshi origin at 23.4%.

The proportion of people of white ethnic origin who are economically inactive is 21% and the proportion of ethnic minorities is 30.9%. Among ethnic minorities the highest rate of economic inactivity is for people of Pakistani or Bangladeshi ethnic origin at 40.9%, with a particularly high rate among women of Pakistani or Bangladeshi origin at 61.5%.

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[49] Labour Force Survey.
[50] Labour Force Survey, Quarter 3, 2013
[51] Annual Population Survey, October 2012-September 2013
[52] Annual Population Survey, October 2012-September 2013

Section 6.5: Age

The lowest employment rates are faced by young people (who are considered separately). However, older people over 50 face lower than average employment rates and face particular difficulties re-engaging in the labour market if they become unemployed or economically inactive.

The employment rate for people aged 50-64 is 67.5%, the unemployment rate is 4.7%, and the proportion who are economically inactive is 29.1%.[53] The employment rate for men aged 50-64 is 73.4% and for women is 61.9%. The unemployment rate for men is 5.4% and for women is 4%. The proportion of men who are economically inactive is 22.5% and women is 35.5%.

Demographic trends are likely to make retaining and re-engaging older people in the workforce more important during the course of the programme. Overall England's population of 53.1 million in 2011 is set to increase in the next decade just as the population will become older.

[53] Annual Population Survey, October 2012-September 2013

Annex A

A summary overview of the justification for the selection of thematic objectives and investment priorities

Selected thematic objective	Selected investment priority	Justification for selection
Thematic objective 1: Strengthening research, technological development and innovation	Promoting business investment in Research and Innovation; developing links and synergies between enterprises, research and development centres and the higher education sector; promoting investment in product and service development, technology transfer, social innovation, eco-innovation, public service applications, demand stimulation, networking, clusters and open innovation through smart specialisation; and supporting technological and applied research, pilot lines, early product validation actions, advanced manufacturing capabilities and first production, in particular in key enabling technologies and diffusion of general purpose technologies	Innovation has strong links to economic growth. The Euro 2020 target for innovation is that 3% of the European Union's Gross Domestic Product (GDP) should be invested in Research and Development. In 2012, United Kingdom gross expenditure on research and development was 1.72 per cent, a fall from 1.79 per cent in 2011and below the Europe 2020 target of 3 per cent. The majority of this expenditure takes place in England but expenditure varies across local areas driven by the spread of existing Research and Development infrastructure and location of large firms most likely to invest in research and development. There is also an opportunity to support innovation in fast growing Small and Medium size Enterprises. European Regional Development Fund funding can address the following market failures which prevent investment in research, development and innovation : • Information failure related to the level of risk and uncertainty in bringing new products or

		services to the market so private finance providers may not invest. • Information failure specifically related to Small and Medium size Enterprises who face higher barriers to entry, higher risks, costs and uncertainty and where there is a lack of awareness of benefits. • Research and Development as a public good where the payback takes many years and where intellectual property rights are difficult to attribute.
Thematic objective 2: Enhancing access to, and use and quality of, ICT	Enhancing access to, and use and quality of, ICT by: (a) extending broadband deployment and the roll-out of high-speed networks and supporting the adoption of emerging technologies and networks for the digital economy; (b) developing Information and Communications Technology products and services, e-commerce, and enhancing demand for ICT	The Digital Agenda for Europe has two relevant goals: • the entire European Union to be covered by broadband above 30 Mbps by 2020; • internet speeds of 100 Mbps to half of all households by 2020 Roll out of broadband in England is already at 76 per cent but only 10.1 per cent of businesses have access to broadband above 30 Mbps and only 5.8 per cent above 100 Mbps. Small and Medium size Enterprises in particular are not exploiting opportunities related to Information and Communications Technology. European Regional Development Fund funding can be used to address: • network coordination failure which makes provision to remote areas too costly for private sector providers, particularly in

		respect of ultrafast broadband • information failure which prevents Small and Medium size Enterprises from fully exploiting opportunities offered by Information and Communications Technology
Thematic objective 3: Enhancing the Competitiveness of Small and Medium size Enterprises	Promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms, including through business incubators; developing and implementing new business models for Small and Medium size Enterprises, in particular with regard to internationalisation; supporting the creation and the extension of advanced capacities for product and service development; supporting the capacity of Small and Medium size Enterprises to grow in regional, national and international markets, and to engage in innovation processes; developing Small and Medium size Enterprise access to finance business readiness	There is an European Commission specific recommendation for the United Kingdom to take measures to encourage banks to lend to businesses, whilst avoiding excessive risk taking. Small and Medium size Enterprises drive innovation and growth in the economy. However there is wide variation in their competitiveness - only 7 per cent can be classified as high growth at the moment. Small and Medium size Enterprises face various barriers to growth especially in accessing finance and export markets. European Regional Development Fund can address the following barriers to Small and Medium size Enterprise growth: • Lack of information and access especially for business start up and particular disadvantaged groups. • Lenders and equity investors face uncertainty about level of risk associated with potential investment. Companies at an early stage of development may find it difficult to secure finance if they have little track record and a lack of demand for

		finance from businesses in an area may limit the number of private finance providers.
Thematic objective 4: Supporting the shift towards a low carbon economy in all sectors	Promoting research and innovation in, and adoption of, low-carbon technologies; developing and implementing smart distribution systems that operate at low and medium voltage levels; promoting low-carbon strategies for all types of territories, in particular for urban areas, including the promotion of sustainable multimodal urban mobility and mitigation-relevant adaptation measures; promoting the production and distribution of energy derived from renewable sources; promoting the use of high-efficiency co-generation of heat and power based on useful heat demand ; promoting the use of; supporting energy efficiency, smart energy management and renewable energy use in public infrastructure, including in public buildings, and in the housing sector high-efficiency co-generation of heat and power based on useful heat demand; promoting energy efficiency and renewable energy use in enterprises; improving energy efficiency and security of supply through the development of smart energy distribution, storage and transmission systems and through the integration of distributed generation from renewable sources	The Europe 2020 targets for Low Carbon are to cut: greenhouse gas emissions 20% lower than 1990; greenhouse gas emissions in sectors not covered by 10% lower than in 2005. Additional targets are to get 20% of energy from renewables and 0% increase in energy efficiency (reduction in primary energy consumption by 2020 in Million tons of Oil Equivalent). Carbon dioxide emissions are an externality and market failure creates the case for public investment to mitigate the negative impacts of rising emissions and support action to reduce their output from production and consumption. In solving this problem there are potential benefits in supporting an expanding and high value market. European Regional Development Funding can also help target information failures that prevent Small and Medium size Enterprises from being aware of the benefits of investing in resource efficiency measures and the relative novelty of some of the technologies meaning that the return on investment is uncertain.
Thematic objective 5: Promoting climate change adaptation, risk prevention	Promoting climate change adaptation, risk prevention and management by promoting investment to address specific risks, ensuring	In some areas across England, land ideal for economic development may remain undeveloped due to flood risk. European Regional Development

and management	disaster resilience and developing disaster management systems (Article 5b[54])	fund will be used to minimise on these specific sites.
Thematic objective 6: Preserving and protecting the environment and promoting resource efficiency	Protecting and restoring biodiversity and soil and promoting ecosystems, including through Natura 2000 and green infrastructure and Promoting innovative technologies to improve environmental protection and resource efficiency in the waste sector, water sector and with regard to soil, or to reduce air pollution.	There is an European Commission specific recommendation for the United Kingdom for more investment in energy renewables (and transport infrastructure) Deterioration in the environment is an externality and the market failure creates the case for public investment to mitigate the negative impacts and support action to reduce their output from production and consumption. In solving this problem there are also potential benefits which drive innovation, improve resilience and enhance competitiveness
Thematic objective 7: Promoting sustainable transport and removing bottlenecks in key network infrastructures	(a) supporting a multimodal Single European Transport Area by investing in the Trans – European Transport Networks; (b) enhancing regional mobility by connecting secondary and tertiary nodes to Trans - EuropeanTransport Networks infrastructure, including multimodal nodes; (c) developing and improving environmentally-friendly, transport infrastructure, in order to promote sustainable regional and local mobility.	There is an European Commission specific recommendation for the United Kingdom to invest in (energy renewables) and transport infrastructure. Transport is a partial public good that delivers social benefits, addresses externalities (e.g. environmental), can improve productivity and can reduce costs to business in securing inputs or delivering to markets especially in less development regions.

[54] http://old.eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:347:0289:0289:EN:PDF

Thematic objective 9 Promoting social inclusion and combating poverty Community Led Local Development	Promoting social inclusion, combating poverty and any discrimination by undertaking investment in the context of community-led local development strategies.	Investment in places and people tackles barriers to growth and targets regeneration on specific geographic areas of opportunity. It also ensures that spatial challenges of recovery are accessible to all areas and groups. Community Led Local Development can mobilise local assets and resources to embed sustainable growth and achieve long-term coherent interventions that add value to mainstream programme activity. It can also address concentrated pockets of deprivation in areas of wider economic activity.