

# **West Midlands ERDF Operational Programme 2007-2013**

## **Annual Implementation Report 2014**



**Programme Number - 2007UK162PO007**

2007UK162PO007  
West Midlands ERDF Programme 2007-13  
AIR 2014 v0.1

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## 1 - Identification

<b>OPERATIONAL PROGRAMME</b>	Objective concerned:	<b>Regional Competitiveness and Employment</b>
	Eligible area concerned:	<b>West Midlands, England</b>
	Programming period:	<b>2007-13</b>
	Programme no. (CCI No):	<b>2007UK162PO007</b>
	Programme title:	<b>West Midlands ERDF Operational Programme</b>
<b>ANNUAL IMPLEMENTATION REPORT</b>	Reporting year:	<b>2014</b>
	Date of approval of the annual report by the monitoring committee	

## 2 - Overview of the implementation of the Operational Programme

### 2.1 Achievement and analysis of the progress

- Information on the physical progress of the Operational Programme

#### European Commission Core Indicators for ERDF

Following a review of the AIRs submitted by the English programmes for 2010, it was noted by the European Commission (EC) that the indicators reported were not those set out in their Indicative Guidelines on Evaluation Methods: Reporting on Core Indicators for the ERDF and the Cohesion Fund (Working Document No. 7).

It was stated by the Managing Authority (MA) for the English Programmes that the list of Core Indicators referred to was not finalised until late in 2009, after the submission and approval of the Operational Programme (OP) documents by the English regions. Accordingly, these indicators were not used.

The EC has requested that the English Programmes report against this list of indicators, whilst recognising the limited compatibility between the two sets of indicators has restricted reporting to the nine indicators shown in the table below.

Indicators		2007 - 2011	2012	2013	2014	2015	Total
1- No of gross jobs created	Achievement	5,851	3,110	1,888	2,532	0	13,381
	Target	-	-	-	-	-	11,550
2 - No of gross jobs created for men	Achievement	2,264	4,812	272	1,846		9,194
	Target	-	-	-	-	-	0
3- No of gross jobs created for women	Achievement	1,291	594	1,616	686		4,187
	Target	-	-	-	-	-	0
4- Number of RTD projects	Achievement	21	13	7	0		41
	Target	-	-	-	-	-	0
5 – No of Cooperation projects enterprises – research institutions	Achievement	643	500	554	978		2,675
	Target	-	-	-	-	-	3,940
7 - Direct investment aid to SMEs – number of projects	Achievement	25	5	5	0		35
	Target	-	-	-	-	-	0
8 - Number of start-ups supported	Achievement	1,489	-701	289	819		1,896
	Target						2,590
10 - Investment induced (€m) <i>Private sector only</i>	Achievement	36.18	30.46	49.69	51.59		167.920
	Target	-	-	-	-	-	0
11 - Information Society – number of projects	Achievement	0	0				0
	Target	-	-	-	-	-	0

#### Indicators 1, 2 and 3 - Jobs Created, Men and Women

The OP target has been exceeded by 1,831. The figures shown for indicators 2 and 3 are based upon the gender of first post holder. This shows that 69% of the jobs created, as reported, are going to men, much the same as reported last year.

#### Indicator 4 - Number of RTD Projects

This indicator has been defined to capture the number of projects within the Programme aimed at either creating new knowledge or developing existing knowledge. A total of 41 projects in Priority Axis 1 have been identified as meeting this definition. As this is not an

indicator defined in the OP, it does not have a set target. At this point in the Programme one will not be set.

#### **Indicator 5 – No of Cooperation projects enterprises – research institutions**

This indicator has been defined to capture those outcomes where a project brings together enterprises and research institutions to their mutual benefit. It corresponds well with the output "Number of businesses within the region engaged in new collaborations with the UK knowledge base" as stated in the OP.

Progress against this indicator by the end of 2014 had reached 68% of its OP target. With contracted activity standing at 99% of the target set, it is possible it will be achieved, but it is unlikely.

#### **Indicator 7 - Direct investment aid to SMEs – number of projects**

This indicator captures the number of projects in the Programme that result in investments that increase the assets value of an enterprise. This has not changed since last year. Thirty five projects, predominantly in Priority Axis 2 have been identified that meet this definition. As this is not an indicator defined in the OP, it does not have a set target. It is not envisaged at this point in the Programme that one will be set.

#### **Indicator 8 - Number of start-ups supported**

This indicator reflects the number of businesses created following the receipt of aid or assistance paid for using ERDF funds. This indicator corresponds to the result "Number of new businesses created and attracted to the region" as defined in the OP.

Performance against this indicator has reached 73%, rising from 42% as reported last year. At the end of 2014, contracted activity 120% of the target set, indicating this target shall be met.

#### **Indicator 10 - Investment induced (€m) *Private sector only***

This indicator seeks to capture the amount of private sector investment attracted to the Programme. The OP does not contain a result specifically to capture Private sector investment. As set out in the OP, the nearest equivalent is an output which captures both public and private sector investment. Investment induced has been interpreted to mean match funding. Actual achievement of private sector match funding at the end of 2014 was €168m.

#### **Indicator 11 - Information Society – Number of projects**

The Programme does not have any projects that meet the criteria for this indicator.

## Indicators as set out in West Midlands ERDF Operational Programme at December 31<sup>st</sup> 2014

A qualitative analysis of the indicators included in the table below can be found from page 9 of this report.

Indicators		2007-13	2014	Total
No of businesses assisted to improve their performance	Achievement	12,471	4,108	16,579
	Programme Target			22,441
No of businesses assisted that are new SMEs	Achievement	10,636	4,002	14,638
	Programme Target			21,322
No of businesses assisted that are social enterprises	Achievement	182	69	251
	Programme Target			160
No of businesses within the region engaged in new collaborations with the UK knowledge base	Achievement	1,697	978	2,675
	Programme Target			3,940
Public and private investment leverage €	Achievement	278,173,896	114,094,476	392,268,372
	Programme Target			399,899,930
Brownfield land reclaimed and/or redeveloped (ha)	Achievement	1.96	6.04	8
	Programme Target			10
New or upgraded floorspace (square metres)	Achievement	11,446	21,468	32,914
	Programme Target			67,600
No of people assisted to get a job	Achievement	11,999	3,954	15,593
	Programme Target			12,200
No of people assisted to start a business	Achievement	7,851	3,378	11,229
	Programme Target			9,500
Square metres of premises upgraded to BREEAM excellent or very good at current standards	Achievement	6,989	232	7,221
	Programme Target			15,025
No of participants, schemes, exchanges and study visits	Achievement	887	0	887
	Programme Target			478
No of capacity building initiatives	Achievement	178	32	210
	Programme Target			305
No of research studies	Achievement	7	7	14
	Programme Target			4
No of gross jobs created	Achievement	10,849	2,532	13,381
	Programme Target			11,550
No of gross jobs safeguarded	Achievement	7,352	4,311	11,663
	Programme Target			9,700
No of new businesses created and attracted to the region	Achievement	1,077	819	1,896
	Programme Target			2,590
No of graduates placed in SMEs	Achievement	625	527	1,152
	Programme Target			1,000
CO <sub>2</sub> reduction per project type	Achievement	466,549	243,433	709,982
	Programme Target			393,020
No of pilot best practice implementations	Achievement	22	0	22
	Programme Target			12
No of new networks established	Achievement	71	0	71
	Programme Target			12

- **Information about the breakdown of use of the Funds**

## **Financial information**

**Unless otherwise stated, the exchange rate used in this document is**

**£1 = €1.239130**

### **Priority axes by source of funding (EUR) at 31<sup>st</sup> December 2014**

	Expenditure paid out by the beneficiaries included in payment claims sent to the managing authority	Corresponding public contribution	Private expenditure	Expenditure paid by the body responsible for making payments to the beneficiaries	Total payments received from the EC
Priority Axis 1: Promoting Innovation Research and Development - ERDF	200,909,202	190,169,749	10,739,452	94,232,057	78,036,521.04
Priority Axis 2: Stimulating Enterprise Development - ERDF	316,399,431	176,075,808	140,323,623	145,507,930	117,365,465.23
Priority Axis 3: Sustainable Urban Development - ERDF	155,127,523	138,273,421	16,854,103	71,141,705	41,703,350.22
Priority Axis 4: Developing Inter-regional Activity - ERDF	1,981,254	1,981,254	0	932,662	932,662.20
Priority Axis 5: Technical assistance - ERDF	14,951,913	14,948,698	3,215	7,108,971	6,080,769.28
Grand Total	689,369,323	521,448,930	167,920,393	318,923,326	244,118,767.97
Total in transitional regions in the grand total	0	0	0	0	
Total in non-transitional regions in the grand total	689,369,323	521,448,930	167,920,393	318,923,326	244,118,767.97
ESF type expenditure in the grand total where the Operational Programme is co-financed by the ERDF	0	0	0	0	0
ERDF type expenditure in the grand total where the Operational Programme is co-financed by the ESF	0	0	0	0	0

**NB** The figures in the above table are based upon actual claims submitted to and paid by DCLG.

## **Pre-Financing Payments**

Date Payment Received	Payment made in Sterling £	Euro Value €	% Programme
14 <sup>th</sup> April 2008	5,812,146	7,997,999	2%
4 <sup>th</sup> August 2008	9,489,625	11,996,998	3%
8 <sup>th</sup> June 2009	8,857,783	9,997,498	2.5%
Total	24,159,554	29,992,495	7.5%

## **Declarations of Expenditure Made to the European Commission 2014**

Two declarations were submitted to the Commission during 2014 –

- WM-Reg/150 – Net eligible expenditure €16.44m; requested reimbursement of funds €8.22m
- WM-Reg/162 - Net eligible expenditure €149.61m; requested reimbursement of funds €74.80m

At December 31<sup>st</sup> 2014 only one declaration payment remained outstanding (WM-Reg/162 submitted 19/12/2014), which was subsequently paid during March 2015.

A self-imposed correction was raised to compensate for the National error rate exceeding the permitted 2% threshold (as reported in the Annual Control Report for 2014). The correction, amounting to €0.575m, was made to declaration WM-Reg/162. Over the programme period, to date, such self-corrections total €2.48m.

**Annex 2** lists all the declarations submitted to the Commission in respect of the West Midlands' Programme by the Certifying Authority by the end of 2014.

### **Categorisation of Programme Expenditure**

Article 11(2) of EC Regulation 1828/2006 requires that the Annual Implementation Report (AIR) includes updated information relating to the cumulative allocation of ERDF funds by the categories as set out in Annex II parts A, B and C of the regulation.

**Annex D of the Operational Programme** shows an indicative breakdown of the funds against the priority theme categories selected in the West Midlands.

To meet this requirement the following appendices can be found attached to the AIR 2014 -

- **Appendix 1** – EC Regulation 1828/2006, Annex II, Part B.  
Appendix 1 gives a breakdown of commitment by the dimensions and categories specified at Part B of Annex II – Priority Theme, Form of Finance, Territory and Location.
- **Appendix 2** - EC Regulation 1828/2006, Annex II, Part C.  
Appendix 2 reproduces the format given in Annex II, Part C of the implementation regulation and breaks down the approved funding by priority theme, form of finance, urban/rural and regional location in combination.
- **Appendix 3** – Annex D of the Operational Programme.  
Appendix 3 uses the information from the operational programme to inform how the Programme funding approvals and grant claimed to the end of the 2014 matches up with the priority themes listed and the forecasts given in the OP.

In respect of those projects contributing to the “Lisbon” related priority themes [as listed at Annex IV of Council Regulation 1083/2006], approvals stand at €322m, which is 92% of the forecast as it currently stands in the OP (€350m).

NB Article 11(3) of 1828/2006 confirms the figures relating to the categories of expenditure, including those relating to the Lisbon Agenda, and more specifically the forecasts set are not Programme targets, but are used by the European Commission (EC) for information.



- **Assistance by target groups**

None of the projects approved by the end of 2014 were targeted at specific groups.

- **Assistance repaid or re-used**

Irregularity totalling €13.8m has been concluded and declared, of which €5.34m grant has been cancelled in accordance with Article 98(2) of the Regulation (EC) No 1083/2006. This equates to 2.2% of the funds paid to applicants. Measures, such as improved A13 monitoring and standardising processes have been instigated to minimise the level of irregularity. The repaid funds have been made available for reuse by other applicants in the respective priority axes.

- **Qualitative analysis**

### **Expenditure – Programme Commitments and Claimed at December 2014**

A total of 228 projects had been approved with ERDF funding by the end of 2014 and total eligible funding of €924m approved, comprising of €404m ERDF; €289m Public Sector Match; and €231m Private Sector Match. Currently there is some over-programming in respect of both the ERDF grant and the match funding, which will require realignment by the close of the Programme.

ERDF grant commitment stands at €404mm, €4m in excess of the ERDF allocated to the Programme. This represents an increase in value of €13m since last year. This is wholly due to the increased value of Sterling against the Euro. The Sterling value of the grant commitment has actually fallen by £0.5m since last year.

By the end of December 2014 a total of €689m eligible expenditure had been claimed by beneficiaries, comprising of €297m ERDF grant; €224m Public Sector Match; and €168m Private Sector Match. ERDF comprises of 43% expenditure claimed. The difference between overall commitment and that for ERDF grant can be explained by the number of projects, particularly from Priority Axes 2 and 3, that have ERDF contribution rates of less than 50%.

### **Indicators – Programme Commitments at December 2014**

Contracted commitment against the Programme indicator targets is strong (see table on next page), with only two indicators predicted not to reach their OP targets. However, both of these have commitment levels over 90% -

- No of businesses within the region engaged in new collaborations with the UK knowledge base 99%
- No of capacity building initiatives 91%

Most indicators have significantly exceeded their targets in respect of contracted commitment, such as -

- No of new businesses created and attracted to the region 120%
- No of businesses assisted SMEs 106%
- Jobs created 161%
- Businesses assisted to improve their performance 108%

<b>Programme Indicators Contracted commitments at December 2014</b>	<b>OP Target 2007-13</b>	<b>Contracted by end of 2014<sup>1</sup></b>	<b>% Contracted against OP Target</b>
No of businesses assisted to improve their performance	22,441	24,190	108%
No of businesses assisted - SMEs	21,322	22,581	106%
No of businesses assisted that are social enterprises	160	435	272%
No of businesses within the region engaged in new collaborations with the UK knowledge base	3,940	3,895	99%
Public and private investment leverage	€400	€523m	131%
Brownfield land reclaimed and/or redeveloped (ha.)	10	35.33	353%
New or upgraded floorspace (square metres)	67,600	75,767	112%
No of people assisted to get a job	12,200	17,910	147%
No of people assisted to start a business	9,500	12,788	135%
Square metres of premises upgraded to BREEAM excellent or very good at current standards	15,025	17,574	117%
No of participants, schemes, exchanges and study visits	478	887	186%
No of capacity building initiatives	305	277	91%
No of research studies	4	21	525%
No of gross jobs created	11,550	18,646	161%
No of gross jobs safeguarded	9,700	14,164	146%
No of new businesses created and attracted to the region	2,590	3,120	120%
No of graduates placed in SMEs	1,000	1,533	153%
Tonnes of carbon dioxide equivalent (CO <sub>2</sub> e) reduced	393,020	1,040,671	265%
No of pilot best practice implementations	12	22	183%
No of new networks established	12	72	600%

### **Indicators – Programme Achievements at December 2014**

As can be seen from the table on the next page, progress by the end of 2014 is satisfactory. Forecast profiles previously indicated that a significant proportion of this Programme's outputs/results would be achieved by activity completed in its final 2 years.

Those indicators previously reported as performing poorly have continued to improve during 2014 – this in particular includes the outputs relating to Upgraded Floorspace and Brownfield land.

<sup>1</sup> Contracted by end of 2014 – this refers to the cumulative amount included in funding agreements for projects approved by the end of 2014 for each output and result.

<b>Programme Indicators Actual Achievements at December 2014</b>	<b>OP Target 2007-13</b>	<b>Reported as achieved during 2014</b>	<b>Total reported as achieved by end of 2014</b>	<b>% Achieved to date against OP target</b>
No of businesses assisted to improve their performance	22,441	4,108	16,579	74%
No of businesses assisted - SMEs	21,322	4,002	14,638	69%
No of businesses assisted that are social enterprises	160	69	251	157%
No of businesses within the region engaged in new collaborations with the UK knowledge base	3,940	978	2,675	68%
Public and private investment leverage	€400	€114m	€392m	98%
Brownfield land reclaimed and/or redeveloped (ha.)	10	6.65	8	82%
New or upgraded floorspace (square metres)	67,600	21,468	32,914	49%
No of people assisted to get a job	12,200	3,954	15,593	128%
No of people assisted to start a business	9,500	3,378	11,229	118%
Square metres of premises upgraded to BREEAM excellent or very good at current standards	15,025	232	7,221	48%
No of participants, schemes, exchanges and study visits	478	0	887	186%
No of capacity building initiatives	305	32	210	69%
No of research studies	4	7	14	350%
No of gross jobs created	11,550	2,532	13,381	116%
No of gross jobs safeguarded	9,700	4,311	11,663	120%
No of new businesses created and attracted to the region	2,590	819	1,896	73%
No of graduates placed in SMEs	1,000	527	1,152	115%
Tonnes of carbon dioxide equivalent (CO <sub>2</sub> e) reduced	393,020	243,433	709,982	181%
No of pilot best practice implementations	12	0	22	183%
No of new networks established	12	0	71	592%

### **Low Achieving Indicators**

Two indicators have yet to achieve 50% of their target; both fall into the land and floorspace category -

- New or upgraded floorspace 49%
- Floorspace upgraded to BREEAM standard excellent or very good 48%

It has been previously noted that the majority of reported achievements against these indicators would occur in the latter part of the Programme period. Whilst this presents a certain level of risk, we are confident the overall targets will be achieved. Each of these

indicators, based on current contractual commitments, is predicted to over-achieve against its target, but reported achievement is lagging for a number of reasons.

- Large capital projects have longer gestation and delivery phases than most revenue based projects; thus a greater time lag for reporting actual achievement.
- As previously reported, the “Package” approach adopted as part of the Priority Axis 3 strategy failed to produce the anticipated volume of activity in the early part of the Programme. Following a change in strategy, a series of new projects boosting activity linked to these indicators were approved, but not until midway through the Programme period.

A number of indicators have yet to achieve 75% of their target -

- No of businesses assisted to improve their performance 74%
- Number of businesses assisted that are SMEs 69%
- No of businesses in collaboration with the UK knowledge base 68%
- No of new businesses created 73%
- No of capacity building initiatives 69%

Reported achievements for these indicators are lagging behind other indicators for a number of reasons.

Those indicators capturing “business assists” are currently being under-reported by our projects, rather than underachieving. The indicator “No of businesses assisted to improve their performance” is showing 74% achievement against target and that for businesses that are SMEs, 69%. Accordingly, it is expected both indicators will reach their targets. Those projects lagging behind in reporting these indicators are being challenged to ensure that all outcomes are fully captured by closure. The difference in achievement of 5% between the 2 indicators should be smaller, and again this will be addressed prior to Programme closure.

The relative underperformance of the output “Collaborations with the UK knowledge database” is symptomatic of the problems experienced by Priority Axis 1 as a whole. As noted elsewhere in this report, budget commitment for Priority Axis 1 sits at 80% of its allocation and we shall be seeking to vire money out to reduce the budget allocation and rebalance the Programme. In this context, it could be said that achieving a 99% commitment against target is a satisfactory achievement. At this point in time we do not expect to achieve the overall target for this output, but we remain confident of achieving over 90%.

Unlike our other business support indicators, “Number of new businesses created” has an in-built lag as it cannot be reported until the business has been in existence for 12 months. Accordingly, a rate of achievement lower than that reported against other indicators would be expected. Efforts are being made to follow up with key projects to ensure the maximum results are captured.

### **Assessment of Overall Achievement at December 2014**

The key indicators measured in the Programme fall into 3 main areas – Business Support; Job and Business Creation; and Regeneration.

## Business Support

There are four indicators linked to this activity. The "parent" output – Number of Businesses assisted to improve their performance - has 3 subsets related to SMEs; Social Enterprises and Collaborations with the UK Knowledge Base.

- **Number of Businesses Assisted to Improve their Performance** – Reaching the target of 22,441 business assists by the end of the Programme may ultimately prove to be too challenging, as this type of activity has fragmented among a number of applicants spread throughout the region following the closure of Business Link. Currently the contracted outcome is 108% of the overall target. Progress against the OP target has been steady, but behind where we would have hoped to be at this stage in the Programme, with actual achievement recorded as 16,579 (74%).
- **Number of Businesses Assisted to Improve their Performance that are SMEs** – The target was reset for this output following the Mid-Term Evaluation to 21,322. Again, this remains a challenging target to achieve despite the current predicted outcome of 22,581 (106%). So far 14,638 (69%) outputs have been reported. It is almost certain that this output is being under-reported.
- **Collaborations with the UK Knowledge Base** – The predicted outcome based on the contracted outputs is 3,895 (99% of the target). Reported achievement to date has reached 2,675 (68%). Indications at this point would suggest that meeting the OP target will prove to be a struggle.
- **Businesses Assisted that are Social Enterprises** – Reported achievement has reached 251 (157%) of the OP target. This reflects the strong performance of a number of projects.

## Job and Business Creation

- **Number of Gross Jobs Created** – Reported results at 13,381 (116%) have exceeded the OP target by 1,831.
- **Number of gross jobs safeguarded** – Reported results at 11,663 (120%) have exceeded the OP target by 1,963.
- **Number of new businesses created/attracted to the region** – At the end of 2014, the predicted outcome reached 120% of the OP target, indicating this target will probably be met. However, actual outcomes at 1,896 have only reached 73% of the OP target.

## Regeneration

There are 3 key indicators - New/Upgraded Floorspace; Premises upgraded to BREEAM standard; Brownfield land reclaimed/redeveloped.

These outputs were highlighted in the Mid-Term Evaluation as being most at risk of missing their target, due at that time to the very low number of approvals. The subsequent targeting of investment dramatically improved the predicted outcome for this particular set of indicators.

- **New / upgraded floorspace (sq. m)** – Actual achievement reported remains on the low side at 32,914 (49%); being a significant improvement on last year's reported figure of 17%. The amount contracted, 75,767 square metres (112%), suggests this target will be exceeded; even though commitment is down a little from the figure reported last year.

- **Premises upgraded to BREEAM good/very good standard** –. Forecast outcomes at 17,574 (117%) remain in excess of the target, but is well down from that reported last year 97,460 (201%). Reported achievement stands at 7,221 (48%) of the OP target, only marginally up from that reported last year 6,989 (46%). This reflects the fact that 8 of the 12 projects reporting this indicator, have yet to do so. These outputs will be pursued during the closure phase of the Programme.
- **Brownfield land reclaimed/redeveloped** – Contractual commitment is 35 hectares (353% against the OP target). Achievement to date is 8 hectares (80%). Accordingly, this target is certain to be achieved comfortably, reflecting the large increase in brownfield regeneration activity approved since 2012.

### **Article 9(3) of Council Regulation 1083/2006 – Lisbon Targets**

Article 9(3) of Council Regulation 1083/2006 states at least 75% of the programme's ERDF expenditure over its lifetime must fall within the categories of expenditure "Lisbon Related Priority Themes". These are listed at Annex IV of the regulation.

Annex D of the Operational Programme (reproduced as appendix 3 to this report) lists the Priority Themes [Lisbon and non-Lisbon] covered by the Programme.

The original expectation, as shown in Annex D, was that 87.52% of the programme expenditure would be attributable to Lisbon related priority themes. The data in Appendix 3 of this report shows that approved funding at the end of 2014 was 79.53% compliant with the Lisbon Related Priority Themes.

The significant increase in project approvals for Priority Axis 3, and a consequent increase in the forecast budget commitment against of the non-Lisbon related themes, has had a significant impact on this outcome. The proportion of non-Lisbon activity in Priority Axis 3 is greater than that originally envisaged - mainly due to a higher level of public infrastructure projects than expected.

Appendix 3 uses the indicative forecasts from Annex D to show the achievement to date against these estimates for both claimed spend and project approvals. By the end of 2014 the following had been achieved –

- ERDF claimed by the end of 2014 –
  - Total claimed €297m; of which €248m was attributable to the Lisbon Related Priority Themes;
  - this amounts to 70.84% of the ERDF budget.
- Project Approvals -
  - Total approvals are €404m ERDF; of which
  - €322m was attributable to Lisbon Related Priority Themes – 79.53% of total programme budget.

### **Underachieving Priority Themes**

As previously reported, there are a number of priority themes that have low attainment levels against their anticipated outcomes. This is due to a variety of reasons, as outlined below.

- R & TD, Innovation and Entrepreneurship grouping – Priority Themes **04** (30.59%); **07** (27.34%); and **09** (9.12%). The low spend against these themes reflects the difficulties experienced attracting the levels of activity anticipated for

Priority Axis 1. This priority axis has been particularly affected by the economic downturn and subsequent contraction in public spending. The recent upturn in the economy has come too late to ameliorate this unfortunate outcome during the current programme period, particularly as the squeeze on public spending remains in place.

- Information Society group - Priority Themes **10** (8.09%); **11** (9.36%); **13** (0%); **14** (10.86%); and **15** (23.78%). There was a strong indication early on in the Programme that demand for support to improved access to ICT services and applications would be significantly greater than has been achieved. However, it is now apparent the original set of targets has overestimated the actual demand for activity in this area. The reason for this outcome is probably a result of the recession leading to potential beneficiaries cancelling/postponing investment in ICT hardware, software and related services.
- Improving Human Capital – Priority Theme **74** (2.49%). Being focused solely on research and innovation, a challenging target was set for this priority theme. This low result is largely due to the early closure of Priority Axis 4 (inter-regional co-operation) and the reduced size of Priority Axis 1, and the fact that collaborative actions in this area have tended to focus on processes and products rather than people.

### **Revision of Priority Theme Indicative Outcomes**

The difference between the over- and under- achieving priority themes is glaring. This shows there is a misalignment between the set of indicators agreed at the outset of the Programme and the actuality of the projects approved and activity undertaken.

Too many priority themes were selected for this Programme at the outset. The changes in the economic landscape since the OP was written have also had a telling impact, resulting in the variance in outcomes across the priority themes.

The outcomes recorded in our earlier reports was skewed towards those priority themes linked to Priority Axes 1 and 2 [R&TD; Innovation], where most of the project approvals had been made at that time. An increase in approvals for Priority Axis 3 projects has subsequently led to a surge in the commitment against non-Lisbon related priority themes. So much so, the total commitment by the end of 2014 is €82.7m, 166% of the total forecast in the OP.

To remove the current imbalance in the targets, and now that the Programme has been fully committed, it is proposed an updated version of Annex D will be submitted to the Commission to revise the OP. The changes will reflect the substantial fall in "Lisbon" compliant activity to around 77% - 80%. In terms of expenditure, this represents a move of c. €40m from compliant to non-compliant priority themes. There are a number of reasons contributing to this –

- The underperformance of Priority Axis 1, targeted at Lisbon compliant activity, leading to a proposed virement of €30m to Priority Axes 2 and 3. This was due to (i) the economic downturn from 2008 resulting in a squeeze in funds available to Universities and other institutions for R&D and Innovation projects from both the private and public sector; and (ii) the closure of the RDA in 2010 and elimination of large pot of planned match funding for such projects.
- The decision at the September 2012 LMC meeting that the approved applications for each priority axis would not be capped according to the standing budget

allocation. Thus, allowing the remaining balance of funds to be allocated according to demand, to ensure full commitment of the Programme.

- Open calls to submit projects leading to greater number of eligible Priority Axis 3 (non-Lisbon) projects being submitted, particularly once the geographical focus was widened to include areas outside of the original package areas.

It is not anticipated that the Programme will fall below the 75% threshold. Indeed as the Programme nears its end and reaches full commitment we would expect the position to improve as (i) experience would suggest any funds requiring reallocation due to slippage are more likely to be associated with the non-Lisbon urban regeneration projects; and (ii) uncommitted funds will be allocated to Priority Axis 2 (Lisbon compliant) as regeneration projects tend to have a long lead time.

The following priority themes will be removed as they have no associated activity–

- 13 Services and applications for the citizen –allocation €4m
- 52 Promotion of clean urban transport –allocation €6m
- 70 Specific action to increase migrant participation in employment - €15m

One priority theme will be added to the list

- 61 Integrated projects for urban and rural regeneration

This captures more accurately the regenerative nature of much of the activity undertaken against Priority Axis 3. Some activity previously reported under other themes, most notably 25 and 50, will be moved to this theme.

### **Likely changes by Priority Theme Type - Lisbon Compliant**

**1 - Research & Technical Development, Innovation and Entrepreneurship** - Nine of our selected priority themes fall under this heading. In the revised profile, the indicative expenditure in total against these themes has risen by c. €18m. However, across the nine themes there have been some large fluctuations from the original targets, largely reflecting the relative levels of commitment for Priority Axes 1 and 2. The revised figures demonstrate the high level of support for SMEs and successful collaborative interactions between the public sector, universities and the private sector in undertaking innovative research and development.

**2 - Information Society** – Five of the selected priority themes fall under this heading. In the revised profile collectively the targets have been reduced by approximately €19m. Only one of the targets (priority theme 10) related to improving broadband has been increased. The other four have been significantly cut, one to zero (priority theme 13). Again this is largely as a result of the economic downturn - historically investment in ICT systems and applications falls significantly during periods of recession.

**3 – Transport** – One Lisbon compliant theme has been selected – 26 Multimodal Transport, which has exceeded the original target of €2m by €11.3m. Currently comprising of 2 large capital projects, it was not originally envisaged that Priority Axis 3 would include much of this activity. That it does, is largely a result of opening up Priority Axis 3 activity beyond the original six geographically limited package areas.

**4 - Energy** – Two priority themes were selected in this category - 41 & 43. The target for 41 has been exceeded by €6.1m due to a single flagship bioenergy project. The target for 43 is to be reduced by €1.4m as fewer projects dealing with energy efficiency/management have been approved than originally envisaged. This being said over 80% of the original target has been met.



**5 - Environmental Protection and Risk Prevention** – No application for funding relating to the promotion of clean urban transport (priority theme 52) has been received. Hence, this is being removed from our list of selected themes. Whilst we do not have any projects that directly promote clean urban transport, we have heavily supported a number of RT&D / Innovation projects in respect of improving vehicle efficiency, which we would argue, support this theme.

**10 - Improving Access to Employment and Sustainability** – Covering 3 priority themes, an overall reduction of around €32m against the targets originally set is being envisaged. A €17m reduction in the targets related to priority themes 68 and 69 relate to the reduction of available funding caused by the closure of the RDA and Business Link organisations by the current Government.

The inclusion of priority theme 70 has proven to be a mistake based upon a misconception of the levels of assistance new migrants would require during the Programme period. Current evidence shows economic migrants often find their own way into employment; and where support is required it can mostly be delivered through existing mainstream activity or other Programmes, such as ESF.

**11 -Improving the Social Inclusion of Less-Favoured Persons** – The original target set for priority theme 71 was ambitious. It was hoped that the package area approach taken for Priority Axis 3, being focused on disadvantaged areas and job creation, would provide sufficient relevant activity. Opening it to other geographical areas has broadened the original focus of Priority Axis 3, attracting large urban regeneration projects – mostly non-Lisbon activity. In the circumstances achieving over 50% of the original target is a reasonable result.

**12 - Improving Human Capital** – Being focused solely on research and innovation, a challenging target was set for priority theme 74. Reaching less than 3% of the original target must be seen as a disappointment. This low result is largely due to the early closure of Priority Axis 4 (inter-regional co-operation) and the reduced size of Priority Axis 1, and the fact that collaborative actions in this area have tended to focus on processes and products rather than people.

#### **Likely changes by Priority Theme Type - Lisbon Non-Compliant**

The net impact of the changes in Annex D will see significant increases in earmarking funds against several non-Lisbon priority theme types –

- 6 –Tourism +€6.6m
- 7 – Culture +€10.1m
- 8 – Urban and Rural Regeneration €32.7m

This mostly relates to significant increases in activity related to urban regeneration and includes priority themes 50, 57, 58 and 61. Although these themes cover different priority theme types, jointly they reflect the increased emphasis on Priority Axis 3 that has occurred in the second part of the programme period, and the increase in applications received since funding was made available in areas outside the original six geographically limited package areas. The match funding has been made available for urban regeneration projects largely, but not solely, co-financed by Local Authorities. This is largely a result of change in economic circumstances since 2008 and the closure of the RDA in 2010 removing much of the public sector funding previously available for RT&D and Innovation (Priority Axis 1).

## N+2 Expenditure Targets for ERDF Programmes 2007-13

### *N+2 Targets introduced by the Commission in June 2010* (€ Euros)

Commitment Year i.e. Berlin profile	Target year i.e. N+2	Annual commitment	N+2 Profile (Revised June 2010)		
			Cumulative spend target (includes pre-financing payments)	Cumulative N+2 target (excluding pre-financing payments)	N+2 Annual Increments to Cumulative N+2
2007	2009	53,791,322	0	0	0
2008	2010	54,867,148	63,832,368	33,839,874	33,839,874
2009	2011	55,964,491	128,762,080	98,769,585	64,929,711
2010	2012	57,083,781	194,811,081	164,818,586	66,049,001
2011	2013	58,225,457	262,001,758	232,009,264	67,190,678
2012	2014	59,389,966	330,356,945	300,364,450	68,355,186
2013	2015	60,577,765	399,899,930	399,899,930	99,535,480
Total		399,899,930			399,899,930

Advance "pre-financing" payments = €29,992,495

The cumulative grant expenditure declared to the Commission at the end of the 2014 was €318,923,326. This exceeded the N+2 target for the West Midlands Programme of €300,364,450 by €18,558,876. This margin is greater than reported in earlier years, having been increased, for once, by favourable exchange rate movements during 2014. This leaves a net N+2 expenditure target for 2015 of €80,976,604 (£65.8m).

However, actual grant expenditure claimed by applicants to the end of 2014 only represents 74.3% of the total grant available to the Programme. This leaves €103m (£84m) of funds to defray during the final year of the Programme. This reflects the fact that the current intervention rate for claimed expenditure is running at 43.8%, which is below the 50% rate at which our declarations are paid.

As the Programme moves into its final year, the challenge will be to maximise the actual expenditure against profile. However, this has to be balanced against a strengthening exchange rate, further diminishing the Sterling value of the remaining funds, and the risk to DCLG being liable to pay grant to applicants, should the Programme over-commit during its final phase. Managing the impact of exchange rate movements will remain a challenge to the Programmes' end.

At the end of 2014, forecast grant expenditure stood at €404m, which marginally exceeded the overall Programme budget of €400m. However, this figure includes some instances of slippage of expenditure occurring during 2014 (i.e. projects failing to meet their own budget profiles), which presents a significant risk to the Programme achieving its overall N+2 target in 2015.

To mitigate this risk, a full scale financial re-profiling of the remaining live projects has taken place during the first part of 2015. Each project is required to submit consolidated budget forecasts for remainder of their activity. Projects have been invited to apply to either de-commit or slip into 2015 unspent budgets from 2014. Initial requests showed

that applicants were seeking to slip £18.4m (€22.6m) from 2014 to 2015; whilst other projects indicated they wished to de-commit funding totalling £5.8m (€7.1m).

Where slippage is being sought by an applicant, they must provide sufficient justification and mitigation to permit the change and ensure further slippage is avoided. Instances of underperformance are challenged and, where appropriate, funds will be de-committed.

Applications for increased funding have also been invited where a project can justify the increase through improved outcomes and guarantee defrayal before the end of 2015.

## Pre-Financing and Interest Earned

Under Article 82 of 1083/2006, each programme is allowed a proportion of its ERDF budget in advance to cash flow expenditure. Pre-financing totalling €29,992,495m [7.5% of the Programme's ERDF value] was received in three tranches in accordance with EC regulation.

It is important that the Programme can track and manage interest earned on the pre-financing cash balance for two reasons.

Firstly, it is a regulatory requirement that the Programme can report to the Commission total interest earned and confirm how the interest was spent.

Secondly, the pressure on public sector finances makes it imperative that all possible available match funding resources are made available to the Programme.

By the end of 2014 –

- the interest earned totalled €719k (£580k), of which
- €36k (£31k) has been spent against Priority 5 (Technical Assistance) related activity.

## Operational Programme Financial Table in Euros

Priority Axis	Community Funding	National counterpart	Total Funding	Contribution Rate	National Public funding	National private funding
<b>1 – Promoting Innovation and R &amp; D</b>	145,000,000	145,000,000	290,000,000	50%	133,400,000	11,600,000
<b>2 – Stimulating Enterprise Development</b>	142,171,187	142,171,187	284,342,374	50%	100,941,542	41,229,645
<b>3 – Achieving Sustainable Urban Development</b>	99,782,047	99,782,047	199,564,094	50%	69,847,432	29,934,615
<b>4 – Developing Inter-regional Activity</b>	1,046,766	1,046,766	2,093,532	50%	1,046,766	0
<b>5 - Technical Assistance</b>	11,899,930	11,899,930	23,799,860	50%	11,899,930	0
<b>Total</b>	399,899,930	399,899,930	799,799,860	50%	317,135,670	82,764,260

## Cross Cutting Themes

The primary focus of the Programme is on sustainable economic growth, whilst also being aware the environmental impact and potential social benefits of the activities delivered.

- Article 16 of Council Regulation 1083/2006 underlines how delivery of the Programme should promote equality between men and women and prevent discrimination on the basis of sex, racial or ethnic origin, religion, disability, age or sexual orientation.
- Article 17 states the Programme objectives must be “pursued in the framework of sustainable development and the Community promotion of the goal of protecting and improving the environment”.

To ensure that environmental respect and social equity are put at the heart of the Programme, the partnership has adopted the two cross-cutting themes of **environmental sustainability** and **equal opportunities**.

### Cross Cutting Theme - Environmental Sustainability

Several indicators have been integrated into the OP indicator framework to monitor the environmental impact at a project level, namely -

- Brownfield Land Reclaimed (ha)
- Square metres of premises upgraded to BREEAM excellent or very good at current standards
- Tonnes of carbon dioxide equivalent (CO<sub>2</sub> e) emissions reduced

All are predicted to exceed their OP targets following an increase in the number of property related projects since 2012 - Brownfield land more than three times. Actual achievement has also taken a significant upturn compared to earlier years, showing at 48% premises upgraded to BREEAM and 82% for Brownfield Land Reclaimed.

Similarly, the target for the indicator measuring reduction of CO<sub>2</sub> emissions has also been exceeded; commitments currently standing at 265% against the OP target and reported achievement at 181%.

### Cross Cutting Theme - Equal Opportunities

In line with Commission guidelines and to monitor aspects of equal opportunities theme, the reporting of the following indicators has been modified to capture further information, as described below -

- Jobs Created – gender of first post-holder recorded and reported; and
- Number of people assisted to start a business – to be disaggregated by gender and ethnicity (This is to facilitate evaluation of the impact of the Programme on rates of female and BME entrepreneurship).

**Jobs created** – The split for jobs created stands as 69% male / 31% female a slight change from last year, which was 68% / 32%.

**People assisted to start a business** – The gender split currently stands at 58% male / 42% female; a slight change from last year, which showed the split as 45% female.

Split by ethnicity, the majority of the support still goes to beneficiaries describing themselves as white (55%).

Whilst some Programme activity is directed at disadvantaged communities and groups, we have no projects that directly target women or specific ethnic groups.

## **2.2 Information about compliance with Community law**

No issues relating to compliance with Community law has been identified.

## **2. 3 Significant problems encountered and measures taken to overcome them.**

There have been no significant problems encountered in implementing the operational programme. There have been no serious problems identified under the procedure in Article 62 (1) (d) (i) of Regulation (EC) No 1083/2006.

## **2.4 Changes in the context of the operational programme implementation (if relevant)**

### **Socio-Economic Commentary for 2014**

The UK economy is estimated to have grown by 2.6 per cent in 2014. This was the fastest growth since the global financial crisis when the UK experienced one of the deepest recessions of any major economy, contracting 6 per cent in real terms between the second quarter of 2008 and the third quarter of 2009.

The Office of Budget Responsibility had forecast the economy would grow by 2.7 per cent at the start of the year. Other forecasts had predicted that GDP growth would be as low as half a per cent. Instead the economy is estimated to have grown by 0.6 per cent in the first quarter accelerating to 0.8 per cent in the second quarter and 0.7 and 0.5 per cent in the last two quarters.

Consumer spending was a key driver to the UK economy strengthening in 2014. Growth in real earnings slowly began to recover in 2014 after a period of stagnation. Regular pay excluding bonuses grew by 1.6 per cent from December 2013 to December 2014, above the rate of inflation which had fallen to 0.5 per cent by the end of 2014. This was primarily due to the fall in global oil prices, which fell around 40% between June and December 2014.

Business investment also continued to increase. Initial estimates suggest business investment grew at 6.8 per cent in 2014, its fastest rate in any year since 2007. Housing market indicators also picked up sharply in the year cooling in the final quarter. In the year to December 2014 house prices had increased by 9.8 per cent as measured by the Office of National Statistics. Export performance weakened in 2014 causing the UK's net trade position to deteriorate slightly over the year. This was mainly due to low demand for exports from the Eurozone countries.

The labour market –resilient during the crisis – continued to strengthen. UK employment figures saw quarter on quarter growth and falling unemployment in 2014. By the final quarter of the year employment rate had risen to 73.2 per cent and the unemployment rate had fallen to 5.7 per cent from 7.2 per cent a year earlier. However, the performance of the labour market varied across the UK, 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, also remained high with just under 1 in 10 employed people wanting more work in 2014.

Productivity remains below its pre-recession peak. Among sectors there has been growth in manufacturing and real estate productivity, for example, but this has been counterbalanced by weak growth in the financial services and the oil and gas industries relative to their pre-recession levels. In the third quarter of 2014 output per hour worked

for the whole economy was only 0.3 per cent higher than a year before. Increases in productivity this year will be vital if the momentum the economy gained in 2014 is to continue.

During 2014 it was reported that the productivity gap between Britain and its main economic rivals had reached its widest extent for 20 years – output per worker being on average 21% lower than that for the other G7 members (USA, Germany, France, Italy, Japan and Canada). ONS statistics revealed that output per worker fell during 2014, for the seventh consecutive year. Prior to the recession productivity efficiency had been increasing annually around 2% - 2.5% - a trend, had it continued, would have meant productivity being 15% higher today than it is.

## **2.5 Substantial modification under Article 57 of Regulation (EC) No 1083/2006 (if relevant)**

There have been no cases where a substantial modification under Article 57 of Regulation (EC) No 1083/2006 has been detected.

## **2.6 Complementarity with other instruments**

There is no instance of complementarity to report.

## **2.7 Monitoring arrangements**

### **Local Management Committee (LMC)**

The arrangements for setting up and running ERDF programme monitoring committees are defined in EC regulation 1083/2006 at Article 65 and the Implementing Provisions (Chapter 8 of the OP), and on the basis of associated principles, such as partnership working. In summary the responsibilities are -

- Consideration and approval of project selection criteria.
- Reviewing progress towards the achievement of programme targets and Priority Axes objectives through performance implementation data.
- Provision of consistent, up-to-date management information.
- Consideration and approval of Annual and Final Reports on programme delivery.
- Consideration and approval of programme evaluations.
- Making requests to the Commission for any changes to the operational programme.
- Ensuring strategic linkages with other Structural Funds, domestic programmes and wider UK economic policy.

The LMC met on two occasions during 2014. Many of the key issues discussed and decisions made at the LMC, form the body of this report.

### **Local Management Sub-Committee (LMSC)**

The LMSC supports the LMC in the discharge of its duties to ensure that the objectives of the Programme will be achieved. The sub committee is chaired by the LMC Deputy Chair and is focused on investment planning and reviewing outline applications for funding. Key tasks include -

- Monitoring performance of the priority axes and maintaining the investment frameworks
- Managing performance of the Priority Axis 3 packages

- Preparing, agreeing bidding rounds to enable initiation of new projects
- Making recommendations to the LMC on virements between Priority Axes
- Reviewing outline proposals submitted under bidding rounds to agree which ones will be selected to go to the full stage and making recommendations on how the projects could be improved as they develop to full stage to better meet the programme/local/ thematic requirements
- Reviewing outline proposals which come through the packages at an agreed stage to make recommendations on how the projects could be improved as they develop to full stage to better meet the programme/ thematic requirements.

During 2014 the LMSC met three times, which included discussing and appraising new applications and re-appraising existing projects to re-commit de-committed funds back into the Programme.

### **Local Monitoring of the Programme 2014**

The Programme's implementing arrangements ensured the GDT has the necessary processes and sufficient capacity to manage and monitor the Programme in respect of Articles 59 and 60 of Council Regulation 1083/2006.

### **GDT Monitoring of Projects**

Each project / operation has an assigned project manager whose responsibilities include monitoring the progress and outcomes against budgets and output / results profiles as set out in the funding agreement.

Project claims are submitted at least quarterly and include a progress update. All projects are monitored for any slippage or underperformance when claims are submitted and appropriate action taken to ensure these predictions will be realised. Where significant problems are highlighted, remedial action is agreed and implemented to ensure the applicant delivers the activity and outcomes within the specified timescale.

At the start of each year, every project is invited to submit updated forecast profiles for the remainder of its life, to report on any shortfalls / slippage and request approval for any significant changes. Part of the dialogue involved in this process is a consideration of achievement against the agreed targets. Applicants are expected to explain significant shortfalls and present proposals that will ensure the achievement of their overall targets within the life of the project.

### **On-the-Spot A13 Inspections**

During 2014 a major revision was made to the Article 13 process which took into account the concerns raised by DG Regio through their programme audits.

The delivery of Article 13(2) on the spot verifications (PAVs) was separated from the delivery teams and a new National ESIF Compliance team was formed. This team operates independently from the GDTs and is managed by an independent Head of Team.

A major revision was made to the method for selecting projects for testing at the visits. Following agreement with DG Regio, a process using a random statistical sampling methodology was put into place which chooses undeclared claims to test. The randomized nature of this approach provides improved levels of assurance for the total population of the projects.

The new team and processes became operational in February 2014, but there were early indications that the demand for visits would peak in the second half of the year and

the team was strengthened with temporary contractors for the final quarter of the year to ensure that the new programme of visits was completed before the final declaration was made at the year end.

It was recognised that, whilst in general the programmes did not display systemic errors, procurement issues had been identified in all programmes. To address this, the MA has recruited several teams of Legal Procurement Experts to test all procurements above the OJEU threshold, or over £1,000,000 in value. This specialist testing work commenced in the autumn and was largely completed by the end of April 2015 with the residual checks to be finished in June 2015. This programme of verifications has been designed to ensure that any significant procurement errors will have been removed from the programme prior to programme closure.

In the West Midlands, the National ESIF Compliance Team undertook 54 Project Assurance Visits in 2014. Expenditure totalling €11.2m (£9.1m) was tested, covering claims to the value of €19.2m (£15.6m). In addition to the visits noted above, further ones took place to each live FEI within the region. There were no issues of any significance reported.

### **Interruption to Payments**

In May 2013 the European Commission's Interruptions Committee decided to interrupt payments to the 10 English 2007-13 ERDF programmes.

The reason for the interruption was that in the EC's view there were "serious deficiencies identified by the English Audit Authority concerning the management verifications and concerning the audit trail."

This was based on two Audit Authority systems audits, the first on Article 13 monitoring arrangements and the second on audit trail of ERDF records transferred to BIS when RDAs were closed. Both audits had a "qualified major" opinion, meaning that there were material weaknesses that needed to be addressed but the AA had to follow very explicit guidance from the EC on systems audit reports. The EC relies on the opinion of the Member State's Audit Authority.

Following several exchanges of correspondence during 2013 and the early part of 2014, where the Managing Authority complied with requests from the Commission for more information and some assurances around Article 13 verifications, the handling of irregularities and the recording of data on the Management Control Information System, the interruption was lifted in March 2014.

### **National Monitoring of the Programme - "Article 16" Audits**

Under Article 62 of EC Regulation 1083/2006, the Government Internal Audit Agency (GIAA) has been appointed as the Audit Authority (AA) for the English ERDF programmes. The AA is functionally independent of the MA and has the responsibility to assess the adequacy and effectiveness of the controls in place and to assess compliance with EC regulations governing ERDF.

This also includes carrying out the control of operations under Article 16 of EC Regulation 1828/2006 (A16), which specifies the content of the audits required under Article 62(1)(b). The audits are carried out at beneficiary level and seek to determine whether or not -

- operations carried out are in accordance with the approval decisions including any conditions agreed;



- expenditure declared is supported by the accounting systems and all related documentation;
- the expenditure declared by the beneficiary is in compliance with Community and national rules; and
- the public contribution has been paid to the beneficiary in accordance with Article 80 of Regulation (EC) No 1083/2006.

Audits of operations are undertaken by the AA in accordance with its audit strategy and sampling method. The AA informs the MA of the sample selected and then arranges, with grant applicants, on-the-spot visits. Following each visit a draft report is issued to the Growth Delivery Team (GDT), who in turn shares it with the grant applicant. Up to 20 working days are given to the grant applicant to respond formally to each of the findings made in the report. Once the responses have been accepted by the auditors, the final report is issued and an action plan is drafted with allotted responsibilities and timescales for completion.

Nationally, the main irregularities arising from Article 16 audits were caused by -

- Procurement – failures in process (52.4%)
- Failure to demonstrate sufficient audit trail (18.3%)
- Ineligible activities (17.5%)
- Ineligible expenditure (3.7%)
- Non-compliance with publicity rules (0.3%)
- Other issues (7.8%)

In the West Midlands during 2014, 21 Article 16 audit visits were undertaken by the AA, as listed on the next page.

These visits were selected from more than one random sample taken during the year. A total of 17 projects were visited, as listed below. Four projects were visited twice for separate audits – Aim High, A/ERDF funded Grant for Business Investment (GBI), Investing in the City Region and European Bioenergy Research Institute.

At these visits a total of £49m (€60m) expenditure was tested, of which £0.6m (€0.7m) error was discovered – a local error rate around 1.24%. In common with the picture reported nationally, the majority of the concluded irregularity arising from these visits was the result of the mismanagement of procurement procedures and failure to keep adequate records.

The National A16 error rate reported to the Commission is derived from all of the English Programmes. The latest concluded error rate reported in the Annual Control Report for 2014 is 2.414%, which is above the permitted 2.0% materiality threshold.

To prevent a Programme interruption DCLG has made a self-declared correction against eligible expenditure declared during 2013-14 across all of the England programmes. This in practise reduces the error rate below the 2% threshold.

The imposition of the voluntary correction reduced this Programme's declared eligible expenditure for 2014 by €574k; reducing the amount to be reimbursed to DCLG by €287k. Although this reduces the amount of money declared as eligible expenditure for 2014, it will not reduce the overall value of the Programme, i.e. the money can be spent again. The total of corrections to eligible expenditure made to the West Midlands Programme over the last three years is €2.48m.

Visit Reference	Project reference	Project Name	Applicant
AA/WM01/13	080/A/GBI/ERDF	A/ERDF funded Grant for Business Investment(GBI)	Department for Business Innovation and Skills
AA/WM02/13	080/P1/002	Digital Cultural Heritage Demonstrator	University of Birmingham
AA/WM03/13	080/P1/012	AIM High	Birmingham City Council
AA/WM04/13	080/P2/006	Coventry and Warwickshire EBG Package	Coventry City Council
AA/WM05/13	080/P2/032	AEGF Augmentation May 2012	Advantage Early Growth Fund
AA/WM06/13	080/P3/008/SB	Castle Hill Vision	Dudley MBC
AA/WM07/13	080/P3/010/BM	Investing in the City Region	Marketing Birmingham Ltd
AA/WM08/13	080/XBG/IN1019	European Bioenergy Research Institute	Aston University
AA/WM09/13	080/XER/SD9001B	WRAP ERDF Infrastructure & Recycling	Waste and Resources Action Programme (WRAP)
AA/WM13/13	080/A/GBI/ERDF	A/ERDF funded Grant for Business Investment(GBI)	Department for Business Innovation and Skills
AA/WM14/13	080/FS/SP7008A	Advantage Early Stage Equity Fund	Capital for Enterprise Ltd
AA/WM15/13	080/P1/012	AIM High	Birmingham City Council
AA/WM16/13	080/P2/035	Greater Birmingham and Solihull LEP Business Support Project	Birmingham City Council
AA/WM17/13	080/P3/003/SL	North Solihull Strategic Cycle Network	Solihull MBC
AA/WM18/13	080/P3/010/BM	Investing in the City Region	Marketing Birmingham Ltd
AA/WM19/13	080/XBG/BE1009	Design Space	Birmingham City Council
AA/WM20/13	080/XBG/BE1100	Solutions for Business - Let's Do Boosting	North Staffordshire COC
AA/WM21/13	080/XBG/BS1200	West Midlands (SME) Internationalisation Phase 2	Coventry University Enterprises
AA/WM22/13	080/XBG/EN9013	West Midlands Industrial Symbiosis Network WMISNet	International Synergies Ltd
AA/WM23/13	080/XBG/IN1019	European Bioenergy Research Institute	Aston University
AA/WM24/13	080/XER/EI1006	North Staffs Employment & Skills Service	Stoke On Trent City Council

## 2.8 National performance reserve (where applicable and only for the annual implementation report submitted for 2010)

Not applicable.

## 3 - Implementation by Priority Axis

### 3.1 Priority Axis 1: Promoting Innovation, Research and Development

#### 3.1.1. Achievement of targets and analysis of the progress

- Information on the physical and financial progress of the priority

#### Expenditure – Priority Axis 1 Commitments and Claimed at December 2014

Priority Axis 1 has a total budget of €290m, of which €145m is ERDF grant funding. A total of 53 projects have been contracted for funding by the end of 2014. No new projects started during 2014.

The total commitment is €237m (£191m); comprising of €118m (£95m) ERDF; €101m (£82m) Public Sector Match; and €18m (£14m) Private Sector funding. This represents an overall budget commitment value of 81.5% at a contribution rate of 49.89%.

Actual expenditure was €201m; comprising of €99m ERDF, €91m Public Sector match funding and €11m Private match funding. This represents 69% of the ERDF budget allocation for Priority Axis 1 at a contribution rate of 49.48%.

#### Indicators – Priority Axis 1 Commitments at December 2014

Programme Indicators	OP Target 2007-13	Contracted by end of 2014	% Contracted
No of businesses assisted to improve their performance	5,500	5,861	107%
Number of Businesses Assisted that are SMES	5,225	4,362	83%
Number of Businesses Assisted that are Social Enterprises	2	62	3,100%
No of businesses within the region engaged in new collaborations with the UK knowledge base	3,190	3,052	96%
Public/private sector leverage €m	€145m	€119m	82%
New/upgraded floorspace (sq m)	2,600	2,525	97%
New/upgraded floorspace to BREEAM v.good/excellent (sq m)	1,025	6,706	654%
No. of people assisted to get a job	1,200	5,246	437%
No. of people assisted to start a business	500	1,674	335%
No of gross jobs created	1,550	2,063	133%
No. of gross jobs safeguarded	3,500	3,388	97%
No of new businesses created and attracted to the region	175	828	473%
No of graduates placed in SMEs	1,000	1,533	153%
CO <sub>2</sub> reduction per project type	2,000	12,655	633%

Most of the indicators selected for this Priority Axis have contracted exceed their targets when looking at contracted commitments –

- Jobs created – 133%
- Businesses assisted to improve performance - 107%

- No. of people assisted to get a job – 437%
- No. of people assisted to start a business – 335%
- New businesses created and attracted to the region – 473%
- New/upgraded floorspace to BREEAM v.good/excellent standard – 654%
- No of graduates placed in SMEs – 153%
- CO<sub>2</sub> reduction per project type – 633%

It can be seen at 3,100% that “Businesses Assisted that are Social Enterprises” has massively exceeded its OP target. This is due to a single project unexpectedly committing to assist 60 such enterprises.

Five of the indicators have not reached the targets set and most of these are unlikely to do so taking into account the stage we are at in the Programme period.

Contracted progress against Businesses assisted that are SMEs at 83% is lower than it should be. This is almost certainly due to under-reporting – the OP states that the overwhelming majority of business support activity should be with SMEs. The real progress is probably significantly higher and much closer to the OP target.

Three of the five have reached levels close to 100% of their targets - Business collaborations 96%; New / upgraded floorspace 97%; Jobs safeguarded 97%. These levels are unlikely to increase further.

Public / private sector leverage has reached 82% of target. This position is unlikely to improve as it is unlikely any further projects will be approved for this priority axis.

### **Indicators – Priority Axis 1 Actuals at December 2014**

The actual outcomes reported continue to show a mixed picture, but a continuing overall improvement. This can be put down to a variety of factors - some under-reporting; the long lead time in the activity required in achieving the outcome.

Actuals reported for the following indicators show their targets have been exceeded -

- Businesses Created (299%);
- New /Improved Floorspace BREEAM (508%);
- Jobs Created (114%);
- People Assisted to Get a Job (411%);
- People Assisted to Start a Business (335%);
- Graduates placed in SMEs (115%).

Programme Indicators		OP Target 2007-13	Reported achieved during 2014	Total reported as achieved by end of 2014	% Achieved to date against Programme target
No of businesses assisted to improve their performance		5,500	1,540	3,610	66%
Number of Businesses Assisted that are SMES		5,225	1,325	2,247	43%
Number of Businesses Assisted that are Social Enterprises		2	0	0	0%
No of businesses within the region engaged in new collaborations with the UK knowledge base		3,190	923	2,108	66%
Public/private sector leverage €m		€145m	€24m	€102m	70%
New/upgraded floorspace (sq. m)		2,600	250	1,025	39%
New/upgraded floorspace to BREEAM v. good/excellent (sq. m)		1,025	0	5,206	508%
No. of people assisted to get a job		1,200	1,874	4,936	411%
No. of people assisted to start a business		500	515	1,673	335%
No of gross jobs created	Overall	1,550	509	1,763	114%
	Female			673	
	Male			1,090	
No. of gross jobs safeguarded		3,500	2,155	2,330	67%
No of new businesses created and attracted to the region		175	234	524	299%
No of graduates placed in SMEs		1,000	527	1,152	115%
CO <sub>2</sub> reduction per project type		2,000	0	0	0%

  

Ethnicity	White	Mixed	Asian / Asian British	Black / Black British	Chinese/Other	No Response
No of people assisted to start a business	1,032	66	203	232	41	99

Other indicators are lagging to varying degrees –

- Businesses assisted to improve performance (66%) – Although achievement to date is probably lower than one might have expected at this point in the Programme, reported outcomes are up 27% from last year's report. This Programme target is set to be achieved. The apparent low performance to date is due a lot of the activity being contracted mid-way or later through the Programme period. Accordingly, much of the achievement is not due to be reported until well into 2015.
- Businesses assisted that are SMEs (43%) – The low level of reported outcomes against this indicator is disappointing. This is subset of the Businesses assisted to improve performance, and as the overwhelming majority of businesses supported in this category are SMEs, the reported results for this indicator should be almost the same. The 23% difference can be explained by under-reporting by the projects. A review the data reported will form part of our closure process and remedial action will be taken to correct this.

- New collaborations with the UK knowledge base (66%) – Commitment against this indicator was slow in accruing and as a consequence achievements to date been lower than would have been expected at this time. Commitment at 96% of the target set means this target is unlikely to be met, unless one or more of the projects substantially outperforms their contracted target. New Upgraded Floorspace (39%) – Contracted commitment against target is 97% and is unlikely to rise any further. The activity sits in two projects that are not due to complete until 2015, when the majority of the remaining floorspace will be completed and reported. (NB The contribution from Priority Axis 1 to the overall Programme target for this indicator is less than 4%.)
- Jobs Safeguarded (67%) – This result has seen a jump of 62% since the last report. Whilst the Priority Axis target is unlikely to be met, the forecast profile sits at 97%.
- CO<sub>2</sub> reductions (0%).- This is a small target and contributes less than 1% to the overall Programme target. It is predicted this target will be achieved.

- **Qualitative analysis**

#### **Priority Axis 1 – Virement of Funds**

The forecast expenditure profile for Priority Axis 1 has only reached 81.5% against its current budget. Priority Axes 2 and 3 have both exceeded their budget targets. Accordingly, the MA will be seeking a virement of funds to rebalance all priority axes. This will be undertaken following the completion of the financial review being undertaken during the early part of 2015.

The final budget profile will be determined by a number of factors - the remaining headroom; expected exchange rate movements; the number of applicants seeking to extend /expand existing projects; any new projects forthcoming; and de-commitment of funds due to slippage/underspend and irregularity.

It is anticipated the final total budget requirement for Priority Axis 1 will fall within the range €234m - €237m; ERDF funding between €117m – €118.5m based upon a 50% contribution rate. This will be submitted to the Commission following calls for existing projects to bid for additional funds and new projects has been closed and assessed.

There were no new project approvals during 2014, and there will not be any during the remainder of the programme period.

#### **3.1.2. Significant problems encountered and measures taken to overcome them**

There have been no significant problems encountered in implementing this priority axis. There have been no serious problems identified under the procedure in Article 62 (1) (d) (i) of Regulation (EC) No 1083/2006.

## 3.2 Priority Axis 2 Stimulating Enterprise Development

### 3.2.1. Achievement of targets and analysis of the progress

- Information on the physical and financial progress of the priority

#### **Expenditure – Priority Axis 2 Commitments and Claimed at December 2014**

No new projects were approved during 2014.

The total committed is €408m (£329m); comprising of €157m (£126m) ERDF; €75m (£60m) Public Sector Match; and €176m (£143m) Private Sector funding. This funding profile gives an ERDF contribution rate of 38.37%.

Actual expenditure of €316m claimed is comprised of €116m ERDF; €60m of Public Sector Match; and €140m Private Sector Match. Grant claimed is 59.8% of the ERDF allocation, paid at a contribution rate of 36.8%.

Priority Axis performance to date as measured by the outputs / results indicators has been strong.

#### **Indicators – Priority Axis 2 Commitments at December 2014**

All but three indicators have exceeded their target in respect of contracted commitment. This includes -

- Businesses assisted that are SMEs – 104%
- Businesses engaged in collaborations – 113%
- Jobs created - 162%
- Jobs safeguarded – 174%
- CO<sub>2e</sub> reduction - 301%

Priority Axis 2 - Indicators	OP Target 2007-13	Contracted by end of 2014	% Contracted
No of businesses assisted to improve their performance	16,271	16,110	99%
No of businesses assisted that are SMEs	15,457	16,092	104%
No of businesses assisted that are social enterprises	150	365	243%
No of businesses within the region engaged in new collaborations with the UK knowledge base	700	794	113%
Public and private investment leverage €m	€142m	€252m	177%
Number of people assisted to get a job	1,000	554	55%
No of people assisted to start a business	9,000	11,114	123%
No of gross jobs created	9,000	14,548	162%
No of gross jobs safeguarded	6,000	10,446	174%
No of new businesses created and attracted to the region	2,380	2,221	93%
CO <sub>2e</sub> reduction per project type	341,020	1,027,192	301%

The output, Businesses assisted to improve their performance, has since last year's report fallen back below the target set for this priority axis – from 103% to 99%. This reflects a number of revisions made to a number of individual projects. However, confidence remains high that this target will be met.

Progress against the other indicators is also strong. The exception is People assisted to get a job (55%). The target for this indicator was increased significantly in 2012, but commitment has failed to reach the level expected. It is unlikely now at this late stage in the Programme that commitment will improve. The contribution to the overall Programme target from Priority Axis 2 is 8%. For the Programme overall, the target for this output has already been exceeded.

## Indicators – Priority Axis 2 Actuals at December 2014

Priority Axis 2 - Indicators		OP Target 2007-13	Reported as achieved during 2014	Total reported as achieved by end of 2014	% Achieved to date against Programme target
No of businesses assisted to improve their performance		16,271	2,229	12,394	76%
No of businesses assisted that are SMEs		15,457	2,271	11,890	77%
No of businesses assisted that are social enterprises		150	69	243	162%
No of businesses within the region engaged in new collaborations with the UK knowledge base		700	55	518	74%
Public and private investment leverage €m		€142m	€45m	€200m	141%
Number of people assisted to get a job		1,000	252	634	63%
No of people assisted to start a business	Assists- Overall	9,000	2,863	9,556	106%
	Assists- Female			4,097	
	Assists- Male			5,459	
No of gross jobs created	Jobs - Overall	9,000	1,779	11,106	123%
	Jobs - Female			3,374	
	Jobs - Male			7,732	
No of gross jobs safeguarded		6,000	2,073	9,214	154%
No of new businesses created and attracted to the region		2,380	571	1,358	57%
CO <sub>2e</sub> reduction per project type		341,020	243,433	709,982	208%

Ethnicity	White	Mixed	Asian / Asian British	Black / Black British	Chinese/Other	No Response
No of people assisted to start a business	5,158	385	610	1,100	232	2,071



Progress in respect of the numbers reported as achieved reported at the end of 2014 can be best described as being mixed. Six indicators have now have exceeded their Programme targets –

- Businesses assisted that are social enterprises – 162%
- Public/private leverage – 141%
- People assisted to get a job – 106%
- Jobs Created – 123%
- Jobs safeguarded – 154%
- CO2e reduction – 208%

Reported achievement for the other five indicators ranges from 57% to 77%.

The reported outcomes for the business support outputs range from 74% to 77% - Businesses assisted 76%; Businesses assisted that are SMEs 77%; Collaborations 73%. This is lower than would be hoped for at this point in the Programme, but indications at this time suggest this is due to under-reporting by projects rather than under-achievement. Concerted efforts will be made during the closure phase of the Programme to ensure outcomes are fully reported.

At 57% reported achievement, New businesses created is well below its target. This indicator, however, has an in-built lag as businesses cannot be counted until they have been in existence for 12 months. Commitment at the end of 2014 stands at 93%, which suggests that the final outcome will not reach the target set for this priority.

People assisted to get a job - reported achievement at 634 (63%) has exceeded the contracted figure for this output. Despite this, the final outcome for this output will probably fall short of its Priority Axis 2 target. However, the target for the Programme has already been met.

- **Qualitative analysis**

### **Priority Axis 2 – Virement of Funds**

The MA will be seeking a virement of funds into Priority Axis 2 as it has reached a level 110% commitment against its current grant budget profile.

It is anticipated the final total budget requirement for Priority Axis 2 will fall within the range €300m - €320m; ERDF funding between €150m – €160m based upon a 50% contribution rate. This would require the virement of funds (from Priority Axes 1 and 5) somewhere in the region of €8m - €18m. A revised budget will be submitted to the Commission when the budget profiles of all live projects have been assessed and revised.

The final figure will be determined by a number of factors - the remaining headroom; exchange rate movements; the number of applicants seeking to extend / expand existing projects; and de-commitment of funds due to slippage/underspend and irregularity.

It will also be necessary to correct the imbalance between grant and match funding – the contribution rate for current commitments stands at 38.4%, significantly lower than the 50% rate agreed for this priority axis. Some of the projects have attracted large amounts of match funding, well in excessive of the 50% priority axis contribution rate. This realignment of grant and match funding will be achieved by re-profiling some

existing projects for newly approved activity that provide additionality and increased outputs and results.

## **Risk Capital Programme 2009-13**

### **Venture Capital Funds**

The Operational Programme identifies the provision of access to finance for SMEs as key factor for economic growth. A study initiated by the Regional Finance Forum confirmed the on-going need for public sector support in this area.<sup>2</sup> It recommended that three types of fund be created to provide –

- Early Stage;
- Growth Equity; and
- Mezzanine Finance.

Accordingly, a number of specific actions have been taken to address barriers in accessing finance to ensure that regional SMEs have access to an adequate and consistent supply of venture capital.

The attempt to set up a Mezzanine Fund was abandoned during 2009 because of the difficulties experienced in securing the necessary match funding.

Two funds were set up in December 2009 - Advantage Early Stage Equity Fund (trading as Early Advantage) and the Advantage Growth Equity Fund (trading as Exceed) – both managed by Midven fund managers.

Three other venture capital funds are also in operation – Advantage Media Production Fund; Advantage Early Growth Fund (ERDF Extension); and The Mercia Fund 1.

The total capitalisation of these funds can be summarised as -:

- Advantage Media Production Fund – Total £3m (£1.5m ERDF; £1m Public; £0.5m Private)
- Early Advantage (Advantage Early Stage Equity Fund) - Total £18.17m (£6m ERDF; £2.3m Public; £9.9m Private)
- Exceed (Advantage Growth Equity Fund) - Total £18.4m (£7.5m ERDF; £1.70m Public; £9.20m Private)
- Advantage Early Growth Fund – Total £13.3m (£2.4m ERDF; £10.9m Private)
- The Mercia Fund 1 – Total £3.18m (£1.54m ERDF; £1.64m Private)
- Advantage Media Production Fund 2013 – Total £8.48m (£4.24m ERDF; £0.12m Public; £4.12m Private)

All of these funds have made a significant number of investments. The total value of investments to date is £45.9m, of which £15.9m is ERDF funding. The potential legacy from the venture capital funds is currently estimated at £32.3m.

By the end of 2014 the funds had made 241 investments and in 119 SMEs. To date this has created 329 new jobs and safeguarded a further 381 jobs.

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<sup>2</sup> "West Midlands Risk Capital Study " Regeneris Consulting Ltd December 2008.

All the co-invest funds have been successful in attracting extensive private sector match funding, some of which has been from institutional investors, but significant match funding has come from the effective engagement of Business Angels.

### West Midlands Venture Capital Funds

<b>West Midlands Venture Capital Funds to the end of 2014 (£ Sterling)</b>	<b>Advantage Media Production Fund</b>	<b>Advantage Media Production Fund 2013</b>	<b>Early Advantage (Advantage Early Stage Equity Fund)</b>	<b>Exceed (Advantage Growth Equity Fund)</b>	<b>Advantage Early Growth Fund</b>	<b>The Mercia Fund 1</b>
<b>Total Fund inc. co-investment (£)</b>	3,000,000	8,480,116	18,174,763	18,400,200	13,283,185	3,181,000
ERDF (£)	1,500,000	4,240,058	6,000,000	7,500,000	2,408,000	1,540,500
Public (£)	1,000,000	115,058	2,260,000	1,700,085	0	40,500
Private (£)	500,000	4,124,000	9,914,763	9,200,115	10,875,185	1,600,000
<b>Total Funds Drawn down</b>	3,000,000	1,582,960	14,132,984	16,813,327	13,251,619	2,336,493
ERDF (£)	1,500,000	798,980	4,000,000	7,500,000	2,484,667	1,153,216
Public (£)	1,000,000	33,980	2,260,000	1,700,085	0	30,527
Private (£)	500,000	750,000	7,872,984	7,613,242	10,875,185	1,152,750
<b>Number SMEs receiving investment</b>	11	2	38	35	26	8
<b>Investments by Stage</b>						
Start Ups	11	2	27	8	0	4
Early Development	0		7	27	26	2
Seed	0		4	0	0	2
Of which Female Led	2		3	2	3	0
<b>Cost of Investments (£)</b>	2,634,098	1,567,960	14,175,842	12,338,760	13,115,027	2,026,490
ERDF (£)	1,280,459	783,980	4,410,971	6,169,630	2,279,842	943,213
Public (£)	853,639	33,980	1,891,886	0	0	30,527
Private (£)	500,000	750,000	7,872,984	6,169,630	10,875,185	1,052,750
<b>Current Value of Investments Made (£)</b>	34,371,099	1,533,980	10,876,026	10,217,012	12,466,242	955,237
<b>Written Down Investments</b>	0	0	387,027	1,718,201	346,548	0
<b>Set up costs (£)</b>			69,158	71,850		
<b>Management Fees (£)</b>	N/A	N/A	1,475,999	2,368,015	58,434	61,053
<b>Jobs Created</b>	0	0	138.75	165	42.5	25
Male			101.5	71	12.5	25
Female			37.25	94	30.5	0
<b>Jobs Safeguarded</b>	0	0	102.78	146	459	17

### Early Advantage (Advantage Early Stage Equity Fund) -

The ERDF grant available to this fund has been increased by £2m. Public match expenditure totalling £1.74m has been taken out of the eligible part of this fund. This includes all funds paid to the fund managers as fees. The project is reporting a healthy

pipeline of new investments. The fund is investing in line with the new profile set and investments made stand at £14.2m, 77% of the investment planned to the end of 2015. To date £387k has been written off in this fund, which is 2.7% of investments made to date.

**Exceed (Advantage Growth Equity Fund)** - It has always been recognised that the required size of investments from this fund (from £250k to £2m) might present difficulties in respect of meeting the targets set. Accordingly, the ERDF funding has been paid in tranches based on results and pipeline investments. Having fallen significantly behind profile during 2012, the fund has subsequently performed well, being 91.2% committed by the end of 2014. Investments made stood at £12.3m, 73% of the funds drawn down. The fund is expected to be fully invested within the programme period. Pipeline applications for new and follow on investments worth £0.8m ERDF being in process. Write downs currently stand at £1.72m, which is 13.9% of investments made to date.

**Advantage Early Growth Fund Augmentation Fund (ERDF Extension)** - The Early Advantage fund did not fully cover the existing needs of the Region, being largely focused on Start Up provision. To bridge this gap, the extension of an existing venture capital fund, Advantage Early Growth Fund (AEGF), was approved in 2009, augmenting the fund's resources by a further €1.61m (£1.38m) from the ERDF Programme, matched by the same amount of Private sector funding. This was further extended by adding a further £1m of ERDF funding during 2013. The cost of investments made is almost 100% of the funds drawn down. Write downs currently stand at £0.39m, which is 2.6% of investments made to date. Jobs created previously reported at 144, has been revised to 138.75. This reflects the impact of several failed investments.

**Advantage Media Production Fund** – At the end of 2014, 88% of the funds drawn down have been invested. Two projects have been identified and worked up into substantive investments to be defrayed by the end of June 2015. If successful this should see the fund reach 100% commitment.

**Advantage Media Production Fund 2013** – This is a relatively new fund, set up to follow up the success of the original AMPF. The project has received an increase in ERDF grant, and although the profiles are challenging, there is a healthy pipeline of potential projects / investments. Drawdown of ERDF funds to date is 19% of budget, which has been almost totally defrayed. Any shortfall in investments made by the end of the Programme is expected to be minimal.

**The Mercia Fund 1** - Having an initial total value of £2m, the fund has been increased to £3.18m during 2014, and ERDF funds available being increased by £0.5m to £1.54m. To date £2m of investments have been made (£0.94m ERDF), and 87% of the funds drawn down. The fund manager is confident the available funds will be fully invested by the end of 2015.

**Other Developments** – Plans to set up a “very early growth fund” were abandoned as questions over timescales and its viability could not be resolved in time to fit it within this Programme.

### **Other Access to Finance Measures**

Measures other than venture capital are being supported using ERDF funds to reduce the barriers businesses face in accessing finance, as summarised below.

## Community Development Fund Institutions (CDFI) - Small Business Loans

The CDFI projects have met a widespread demand from small and medium sized businesses for loans of less than £50k. The applicants have to demonstrate they have viable business plans, but cannot access adequate finance through usual channels. The target audience for the CDFI projects includes people who have been refused loans by high street banks, start-ups and disadvantaged groups.

### Active CDFIs

Only four of the nine approved CDFIs remained financially active during 2014. These are captured in the table below

<b>West Midlands Community Development Finance Institutions – Current Funds Position at December 2014    £ Sterling</b>					
<b>Description</b>	<b>Prince's Trust</b>	<b>Enterprise 1830 – Small Business Loans Enterprise (Prince's Trust)</b>	<b>WS Business Loan Fund</b>	<b>Coventry &amp; Warks Small Business Loans</b>	<b>Staffordshire &amp; Stoke Business Loan Fund</b>
<b>Total Fund (£)</b>					
ERDF (£)	1,059,936	450,139	1,528,099	518,809	1,000,000
Public (£)	333,631	0	1,526,099	0	1,000,000
Private (£)	726,305	450,139	0	518,809	
<b>Total</b>	<b>2,119,872</b>	<b>900,278</b>	<b>3,056,198</b>	<b>1,037,618</b>	<b>2,000,000</b>
<b>Cost of Investments Made (£)</b>					
ERDF (£)	1,510,075		311,316	323,829	660,300
Public (£)	333,631		311,316		660,300
Private (£)	1,176,444			323,690	
<b>Total</b>	<b>3,020,150</b>		<b>622,632</b>	<b>677,519</b>	<b>1,320,600</b>
<b>Current Value of Investments Made (£)</b>	<b>1,604,543</b>		<b>536,905</b>	<b>677,519</b>	<b>1,148,673</b>
<b>Realisations (£)</b>	<b>1,379,172</b>		<b>85,727</b>	<b>0</b>	<b>171,927</b>
<b>Default to Date (£)</b>	<b>36,435 (1.2%)</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>Number SMEs Invested in</b>	<b>741</b>	<b>300</b>	<b>23</b>	<b>18</b>	<b>53</b>
Start Ups	741	300	3	2	9
Early Development			3	7	19
Development			17	9	25
Of which Micros	741	300	20	13	36
Of which Female Led	338	128	3	0	8
<b>Jobs Created</b>	<b>786</b>	<b>313</b>	<b>14</b>	<b>2.7</b>	<b>21</b>
Male	448	185	10	1.7	15.5
Female	281	128	4	1	5.5
<b>Jobs Safeguarded</b>	<b>0</b>			<b>102.5</b>	<b>96</b>
<b>SMEs ceased Trading</b>	<b>28</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Three of these funds opened during 2013 – Worcestershire / Shropshire (WS) Business Loan Fund, Staffordshire and Stoke-on-Trent Business Loan Fund and Coventry and Warwickshire Small Business Loans. All three are defrayment funds that do not involve any advance payment of funding.

The **WS Business Loan Fund** is a £3m defrayment fund. The fund makes loans of between £10,000 and £50,000 and as such does not have a very long lead in time, although obtaining security for the loan and associated issues can sometimes delay the defrayment of the loan for several weeks. At the end of 2014, loans to the value of 20% of the available budget had been made. The reported pipeline was an estimated £600k (£300k ERDF). Indications are that demand for loans will not be sufficient during 2015 to exhaust the fund. Accordingly, the applicant is likely to request de-commitment of around £750k and a possible extension of the financial completion date of August 2015. This fund has to date assisted 23 businesses and recorded 14 jobs created.

The **Staffordshire and Stoke-on-Trent Business Loan Fund**, is a £2.0m defrayment fund. The fund makes loans of between £10,000 and £50,000 and as such does not have a very long lead in time for the pipeline. At the end of 2014, loans to the value of 66% of the available budget had been made. The reported pipeline was an estimated £284k (£142k ERDF). The applicant is optimistic that the fund manager will meet the profile, for Staffordshire, but is indicating that there will be underspend of £100k (£50k ERDF) in the Stoke area. The applicant may need to seek a short extension to avoid de-commitment. This fund has to date assisted 53 businesses, reported 21 jobs created and a further 96 safeguarded.

The **Coventry and Warwickshire Small Business Loans** project had a slow start and fell behind its profile. To counter this, the fund manager allocated more resource to the project and undertook a vigorous marketing and promotion campaign. Accordingly, performance has improved markedly and the project now has a healthy pipeline of potential investments. At the end of 2014, loans to the value of 65% of the available budget had been made by the fund and it is on track to meet its profile. This fund has to date assisted 18 businesses, and reported 2.7 jobs created and 102.5 safeguarded.

The remaining CDFI was a further phase of the Prince's Trust loan funds - **Enterprise 1830 – Small Business Loans**. Both Prince's Trust funds reached 100% commitment during 2014. It must be noted that the combined value of the Prince's Trust CDFIs has been revised down from £3.7m, as reported last year, to £3.0m. This is because the original figures included costs related to delivering mentoring activity rather than issuing small business loans.

The CDFIs managed by the Prince's Trust have together, in total, assisted 1,041 individuals and businesses and created a total 1,099 jobs. The level of realisations has reached 46% and reported default is currently very low at 1.2%.

### **Remaining CDFIs**

The other four CDFIs have stopped giving out loans. Their current results are listed in the table on the next page. Between them, these four funds have contributed to the Programme by assisting 533 SME's, creating 1,708 jobs, whilst safeguarding more than 1,534.

It is recognised that borrowers from CDFIs are more likely to produce a higher than average default rate when compared with other loan funds or conventional lenders. Taking this into account default levels below 10% can be said to be a good outcome, whilst those over 20% would not be wholly unexpected or necessarily unreasonable. The current levels of default vary across these Funds from 5.2 % (BCRS) to 25.9% (ART).

<b>West Midlands Community Development Finance Institutions – Completed Funds</b>				
<b>Position at December 2014    £ Sterling</b>				
<b>Description</b>	<b>Marches Reinvest Trust (MRRT)</b>	<b>Coventry &amp; Warwickshire Reinvestment Trust (CWRT)</b>	<b>Aston Reinvestment Trust (ART)</b>	<b>Black Country Reinvestment Trust (BCRS)</b>
ERDF (£)	1,196,284	591,947	1,130,933	2,997,048
Public (£)	712,759	148,333	545,011	1,718,952
Private (£)	676,716	539,002	797,353	1,716,500
<b>Total Fund (£)</b>	<b>2,585,759</b>	<b>1,279,281</b>	<b>2,473,297</b>	<b>6,432,500</b>
ERDF (£)	1,196,284	591,947	1,130,933	2,997,048
Public (£)	712,759	148,333	545,011	1,718,952
Private (£)	676,716	539,002	797,353	1,716,500
<b>Cost of Investments Made (£)</b>	<b>2,585,759</b>	<b>1,278,281</b>	<b>2,473,797</b>	<b>6,432,500</b>
<b>Current Value of Investments Made (£)</b>	<b>636,716</b>	<b>251,743</b>	<b>453,702</b>	<b>1,628,651</b>
<b>Realisations (£)</b>	<b>1,737,451</b>	<b>910,063</b>	<b>1,413,492</b>	<b>4,469,647</b>
<b>Default to Date (£)</b>	<b>211,592 (8.2%)</b>	<b>117,475 (9.2%)</b>	<b>640,497 (25.9%)</b>	<b>334,202 (5.2%)</b>
<b>Number SMEs Invested in</b>	<b>101</b>	<b>85</b>	<b>119</b>	<b>229</b>
Start Ups	30	44	21	19
Early Development	31		50	
Development	40	41	48	210
Of which Micros	71	77	96	188
Of which Female Led	14	21	27	68
<b>Jobs Created</b>	<b>100.5</b>	<b>149.0</b>	<b>472</b>	<b>356.5</b>
Male	53.5	75.0	263	224
Female	47.0	74.0	275	132.5
<b>Jobs Safeguarded</b>	<b>112</b>	<b>28</b>	<b>563</b>	<b>831.5</b>
<b>SMEs ceased Trading</b>	<b>12</b>	<b>13</b>	<b>25</b>	<b>54</b>

## Grants for Business Investment (GBI)

GBI is a national grant scheme delivered regionally within guidelines maintained by BIS. It provides capital grants of between £10,000 and £1,999,999 to businesses to support investment to help them expand, rationalise, modernise or diversify. The grants are predominantly aimed at SMEs, but are available to large companies at a lower contribution rate, if the conditions allow.

The project is now financially complete with reported expenditure of £45.87m, including ERDF funding £6.3m of ERDF funding at an average contribution rate of 13.7%. The low contribution rate in this project is dictated by State Aid rules that limit the amount of public funding which can be offered to end beneficiaries.

To date -

- 64 businesses have received support (61 SMEs) – 91% of target
- 308 jobs created – 77%; and
- 482.5 jobs safeguarded – 96%.

### **Annual reporting under Article 67 of Council Regulation (EC) No 1083/2006 - progress made in financing and implementing financial engineering instruments**

The amendment of Council Regulation (EC) No. 1083/2006 of 13 December 2011 introduced under Article 67(2)(j), points (i)-(iv), new provisions for reporting on financial engineering instruments in the annual and final reports on implementation of operational programmes.

To ensure the coherent reporting of the collected data and to facilitate their processing, the Commission has prepared the specific reporting templates dedicated to financial engineering instruments. A compilation of the templates for the West Midlands Programme can be found at Appendix 4

### **3.2.2. Significant problems encountered and measures taken to overcome them**

There have been no serious problems identified under the procedure in Article 62 (1) (d) (i) of Regulation (EC) No 1083/2006.



### 3.3 Priority Axis 3 Achieving Sustainable Urban Development

#### 3.3.1. Achievement of targets and analysis of the progress

- Information on the physical and financial progress of the priority

#### **Expenditure – Priority Axis 3 Commitments and Claimed at December 2014**

This priority axis has 54 contracted projects.

Total of eligible funding committed is €255m (£206m); comprising of €118m (£95m) ERDF; €102m (£82m) Public Sector Match; and €36m (£29m) Private Sector funding.

This represents 118% of the agreed Priority Axis 3 ERDF budget as currently stated in the OP, at a contribution rate of 46%.

Actual expenditure by the end of the reporting period was €155m; comprising of €73m ERDF and €65m Public Sector Match funding, and €17m of Private Sector funding.

#### **Indicators – Priority Axis 3 Commitments at December 2014**

Priority Axis 3 - Indicators	Revised / New OP Target 2007-13	Contracted by end of 2014	% of Target Contracted
No of businesses assisted to improve their performance	600	2,138	356%
No of businesses that are SMEs	570	2,083	365%
Public and private investment leverage €m	€100m	€138m	138%
Brownfield land reclaimed and / or redeveloped (Hectares)	10	35	350%
New or upgraded floorspace (square metres)	65,000	73,242	113%
Square metres of premises upgraded to BREEAM excellent or very good at current standards	14,000	10,868	78%
No of people assisted to get a job	10,000	12,110	121%
No of gross jobs created	1,000	2,035	204%
No. of jobs safeguarded	200	330	165%
No. new businesses created/attracted to Region	35	71	203%
CO <sub>2</sub> reduction per project type	50,000	824	2%

Analysis of the contracted commitments for Priority Axis 3 shows that all but two of the indicators are predicted to exceed their OP target. The strongest performers are Businesses Assisted (356%); Businesses Assisted that are SMEs (365%); Brownfield land reclaimed/redeveloped (350%).

The two exceptions are Premises upgraded to BREEAM standards (78%) and CO<sub>2</sub> reduction (2%). Both are well away from meeting their respective targets. The poor figures for the CO<sub>2</sub> reduction indicator may be a case of under-recording rather than underperformance. It is worth noting, that the contribution to the Programme from Priority Axis 3 for this output is very small and that for the Programme as a whole, this indicator target has already been met.

The performance of the two floorspace indicators is contrasting. New / upgraded floorspace commitment is currently at 113% against its target, although this is down from 129% reported last year.

Floorspace upgraded to BREEAM standard is at 78%, significantly reduced from that reported last year, which stood at 179% against its target. This is due to two projects reducing their forecasts by 14,186 square metres between them.

### Indicators – Priority Axis 3 Actuals at December 2014

Priority Axis 3 - Indicators		OP Target 2007-13	Reported as achieved during 2014	Total reported as achieved by end of 2014	% Achieved to date against Programme target
No of businesses assisted to improve their performance		600	308	494	82%
No of businesses that are SMEs		570	406	457	80%
Public and private investment leverage €m		€100m	€44m	€82m	82%
Brownfield land reclaimed and / or redeveloped (Hectares)		10	6.04	8	80%
New or upgraded floorspace (square metres)		65,000	21,218	31,889	49%
Square metres of premises upgraded to BREEAM excellent or very good at current standards		14,000	232	2015	14%
No of people assisted to get a job		10,000	1,468	10,023	100%
No of gross jobs created	Jobs - Overall	1,000	244	512	51%
	Jobs - Female			140	
	Jobs - Male			372	
No. of jobs safeguarded		200	83	119	60%
No. new businesses created/attracted to Region		35	14	14	40%
CO <sub>2</sub> reduction per project type		50,000	0	0	0%

Although the later years of the Programme have seen a significant increase in project activity, overall reported achievement against Priority Axis 3, remains relatively low, when compared to Priority Axes 1 and 2. Only one indicator has reached its target, and of the remainder, six have yet to exceed 60%.

Much of this apparent underperformance, as previously reported, is associated with the “Package” approach adopted in the earlier part of the Programme, the relative failure of which meant much of the activity for this priority axis was not contracted until the midway point of the Programme or later. This has impacted significantly on the delivery and reporting of actual outcomes. Couple this with the longer gestation and delivery phases associated with large capital projects and it creates a much longer time lag for reporting actual achievement when compared to revenue based projects.

Accordingly, it has been accepted that the majority of reported achievements for Priority Axis 3 are going to occur in the last part of the Programme period. Whilst this presents a certain level of risk in respect of slippage and failed delivery, we are confident the

overall targets will be achieved as based on current contractual commitments; all but two are predicted to achieve its target.

At December 2014, only one indicator had reached its target – People assisted to get a job (100%). Of the others, reported achievement ranges from 0% to 82% of their targets.

At 494 (82%) and 457 (80%) respectively, reported outcomes for Businesses assisted to improve performance and Businesses assisted that are SMEs have both shown a significant increase from that reported last year. Both are expected to exceed the targets set.

The reported achievements for Brownfield land reclaimed have reached 80% of the target set. As currently profiled, the overwhelming majority of the predicted outcome will be delivered in 2015. The final outcome is expected to significantly exceed the target.

At 31,889 square metres (49%), and although less than half the target set, the reported results for New or upgraded floorspace have significantly increased since last year. Most of the activity is due to be reported during 2015, so it is predicted to significantly exceed target.

The indicator Floorspace upgraded to BREEAM standards, at 14% achievement against its target, continues to lag behind and as already stated the target is unlikely to be met.

Many of the predicted jobs to be created are linked to the completion of activity to take place during 2015. Accordingly, the reported achievement for Jobs Created at only 51% at this stage of the Programme is not unexpected. Current figures for contracted commitment show that this result will significantly over-achieve against its target.

Although it is predicted the target will be comfortably met, New businesses created outcomes reported to date remains low at 40% of target reported to date. The target set for Priority Axis 3 (35 new businesses) is less than 2% of the Programme target.

- **Qualitative analysis**

### **Package Area ERDF Budget Allocations**

Funding for urban development activities has been concentrated within Priority Axis 3. The original aim was to generate growth and employment opportunities in six geographically defined "deprived" urban localities in the West Midlands; referred to as 'Package Areas'.<sup>3</sup>; each Package having a ring-fenced allocation of ERDF and appropriate Package Plan<sup>4</sup>.

The original Package Plans were approved in 2008, but commitment and expenditure under Priority Axis 3 consistently lagged behind those in the other priorities. To some extent this is due to the nature of investments as they often require a longer lead-in time, but even taking this into account the lags have been noticeable, and from as early as November 2008, the PMC raised concerns over the rate of progress. This position was exacerbated by the closure of the RDA reducing the pool of available match funding. Accordingly, during 2012 the budgets for the package areas were reduced, releasing funds for projects outside these areas. Performance has improved significantly since then with overall commitment reaching 110% of the OP budget.

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<sup>3</sup> Package Areas – Geographically defined areas of deprivation. The six areas for package selection are set out in the OP and contained within the West Midlands Conurbation and the North Staffordshire Conurbation. Package - A package is defined as a group of related projects in a closely defined urban area.

<sup>4</sup> Package Plan – For each Package Area, this sets out the purpose, type and timing of ERDF investments over the programme period.

### **Priority Axis 3 – Virement of Funds**

Priority Axis 3 has reached a commitment level of 110% against its current grant budget profile. Accordingly, the MA will be seeking a virement of funds to rebalance the figures.

It is anticipated the final total budget requirement for Priority Axis 3 will fall within the range €232m - €240m; ERDF funding between €114m – €120m based upon a 50% contribution rate. This would require the virement of funds (from Priority Axes 1 and 5) somewhere in the region of €14m - €18m.

The final figure will be determined by a number of factors - the remaining headroom; exchange rate movements; the number of applicants seeking to extend /expand existing projects and de-commitment of funds due to slippage/underspend and irregularity.

It will also be necessary to correct the imbalance between grant and match funding – the contribution rate for current commitments stands at 48%, lower than the 50% rate agreed for this priority axis. Some of the projects have attracted large amounts of match funding, well in excess of the 50% priority axis contribution rate.

#### **3.3.2. Significant problems encountered and measures taken to overcome them**

There have been no serious problems identified under the procedure in Article 62 (1) (d) (i) of Regulation (EC) No 1083/2006.

## 3.4 Priority Axis 4: Developing Inter-regional Activity

### 3.4.1. Achievement of targets and analysis of the progress

- **Information on the physical and financial progress of the priority**

The closure of Priority Axis 4 has been approved and a final ERDF budget set. There was no expenditure reported during 2014.

Priority Axis 4 - Indicators	Target 2007-13	Reported as achieved during 2014	Total reported as achieved by end of 2014	% Achieved to date against Programme target
Public/private sector leverage €m	€1m	€0.00m	€0.99m	96%
No of participants, schemes, exchanges and study visits	350	0	759	217%
No of pilot best practice implementations	8	0	6	75%
No of new networks established	7	0	37	529%
No of businesses assisted to improve their performance	31	0	31	100%

- **Qualitative analysis**

This Priority Axis was initially suspended (PMC, July 2009) and subsequently closed (PMC, January 2011) due to the impact of firstly, of the sector funding cuts announced in June 2009 and the later decision to abolish the RDAs. There are no changes to report during 2014.

Following closure of this Priority Axis a modification was submitted to the European Commission to move the remaining Priority 4 budget into Priority 3. Provision was also made to accommodate transnational activity under the remaining 3 main priorities, should eligible demand materialise. This modification to the OP was approved by the European Commission on 5<sup>th</sup> March 2012.

### 3.4.2. Significant problems encountered and measures taken to overcome them

There have been no serious problems identified under the procedure in Article 62 (1) (d) (i) of Regulation (EC) No 1083/2006.

## 3.5 Priority Axis 5: Technical Assistance

### 3.5.1. Achievement of targets and analysis of the progress

- Information on the physical and financial progress of the priority

#### Expenditure – Priority Axis 5 Commitments and Claimed at December 2014

Projects approved and contracted total 18.

The total budget commitment is €21m (£17m); comprising of €10.6m (£8.5m) ERDF and €10.5m (£8.5m) Public Sector Match funding. This represents 87% of the Technical Assistance funding available to the Programme, at a contribution rate of 50%.

Actual expenditure by the end of December 2014 was €15m comprising of €7.5m ERDF and €7.5m Public Sector Match funding.

#### Indicators – Priority Axis 5 Commitments at December 2014

When looking at the contracted commitments for Priority Axis 5, it can be seen that three indicators have failed to meet the targets set in the OP. It is unlikely at this late stage in the Programme these indicators will meet their targets

Priority Axis 5 - Indicators	Target 2007-13	Contracted by end of 2014	% Contracted
No of businesses assisted to improve their performance	50	50	100%
Number of Businesses Assisted that are SMES	50	44	88%
Number of Businesses Assisted that are Social Enterprises	8	8	100%
No of businesses within the region engaged in new collaborations with the UK knowledge base	50	49	98%
No of participants, schemes, exchanges and study visits	128	128	100%
No of capacity building initiatives	305	277	91%
No of research studies	4	21	525%
No of pilot best practice implementations	4	16	400%
No of new networks established	5	35	700%

## Indicators – Priority Axis 5 Actuals at December 2014

All but three of the targets set have been achieved or exceeded. The three indicators in question will not be met as it is unlikely any new activity will be initiated.

Priority Axis 5 - Indicators	Target 2007-13	Reported as achieved during 2014	Total reported as achieved by end of 2014	% Achieved to date against Programme target
No of businesses assisted to improve their performance	50	0	50	100%
Number of Businesses Assisted that are SMES	50	0	44	88%
Number of Businesses Assisted that are Social Enterprises	8	0	8	100%
No of businesses within the region engaged in new collaborations with the UK knowledge base	50	0	49	98%
No of participants, schemes, exchanges and study visits	128	0	128	100%
No of capacity building initiatives	305	32	210	69%
No of research studies	4	11	14	350%
No of pilot best practice implementations	4	0	16	400%
No of new networks established	5	0	34	680%

### • Qualitative analysis

#### Technical Assistance January 2007 to June 2011

The ERDF Technical Assistance Strategy and Delivery Plan approved at the January 2008 PMC, and subsequently submitted to the EC and approved.

The key aspects of the strategy document, in line with the OP, covered –

- Programme administration
- Development and capacity building
- Research, analysis, monitoring and evaluation
- Information and publicity

From the start of the Programme it was agreed that voluntary contributions from partner organisations or applicants would not be sought as a source of match funding for TA. It was agreed that for the duration of the Programme, AWM would match fund the entire TA allocation via the Single Budget at the contribution rate set at 50%.

As the resources available for TA are much reduced when compared to the previous programme, it was also decided the available TA funding would be assigned to a relatively small and focused suite of projects that would ensure effective management of the West Midlands' Programme. This included -

- the establishment of a programme secretariat within AWM, the then designated implementing body;
- establishing and maintaining the capacity to select, appraise, approve, manage and monitor the delivery of projects;
- co-ordination of the PMC and related priority axis working groups;
- production of the required management information for the purposes of Programme operation and to facilitate decision making;

- setting up, implementing, operating and maintaining the systems required as a core user of MCIS (Management and Control Information System), the DCLG programme management system; and
- information and publicity related activity, including the preparation, implementation and monitoring of the ERDF Programme Communications Plan and other publicity activity required by the ERDF regulations.

Capacity building has been an on-going aspect of the Programme to date. TA has enabled numerous events and sessions to be run to assist staff, partners and applicants in respect of project development, application, delivery and monitoring.

The following activity, previously funded by TA ended by March 2012 -

- **EU Connects** – single point of contact for capacity building and training for EU funded programmes. (TA funding ended March 2012.)
- **West Midlands European Network (WMEN)** - Engagement with the third sector. (TA funding ended March 2011)
- **The West Midlands Regional Observatory (WMRO)** – Regional source of intelligence and evidence. (TA funding ended November 2010).

### **Technical Assistance July 2010 to December 2015**

The original TA strategy was implemented on the assumption that AWM would provide Single Budget match funding for Technical Assistance for the duration of the Programme period. This match funding ceased from June 30th 2011 leaving a significant potential shortfall. DCLG funds will be made available to the Programme to meet on-going activity and ensure all administrative and regulatory requirements are met for the remainder of the Programme period.

Under Articles 63-65 of Council Regulation (EC) No. 1082/2006 and the guidance issued by the Managing Authority (MA), state the strategy for TA and any revisions must be approved by the LMC.

All activities part financed by TA must be within the scope of the OP document. The revised strategy confirmed that TA funding is provided to finance the preparatory, management, monitoring, evaluation, and information and control activities of the programme, together with activities to reinforce the administrative capacity for implementing the Funds.

The governing documentation which define the eligible use of TA are -

- European Commission Regulation (EC) No. 1083/2006;
- Communities & Local Government (CLG) ERDF User Manual (Chapter 12); and
- West Midlands ERDF Operational Programme Document 2007-13.

Version 3 of the TA Strategy, approved in January 2012 at the LMC, brought it up to date to reflect the proposed use of TA funding to the end of the Programme.

The Strategy included a provision for the submission of an application during 2012 on behalf of DCLG to ensure funds were available to undertake the necessary administrative and regulatory activity; to be backdated to July 1<sup>st</sup> 2011. The full application was submitted and approved in May 2012. The £7.5m project will cover all remaining costs related to administering the Programme and meeting all regulatory requirements, including research, evaluation and publicity. In addition to this certain



costs involved in developing the 2014-2020 ERDF Programme will be eligible for payment from the current Programme.

### **3.5.2. Significant problems encountered and measures taken to overcome them**

There have been no serious problems identified under the procedure in Article 62 (1) (d) (i) of Regulation (EC) No 1083/2006.

## **4 - ESF programmes: Coherence and Concentration**

Not applicable.

## **5 - ERDF/CF programmes: major projects**

There are no major projects approved in this Programme.

## **6 - Technical Assistance**

See section - 3.5 Priority 5: Technical Assistance.

## **7 - Information and Publicity**

The Implementing Regulation (EC) NO 1083/2006 states a Communication Plan shall be drawn up by the body managing the Operational Programme for which it is responsible, The Communication Plan was approved by the Programme Monitoring Committee at the meeting held in January 18<sup>th</sup> 2008. Following this approval the Plan was officially submitted and approved by the European Commission on 30 April 2008. The Communication Plan is a working document which will be updated as the programme develops. The Plan is to be re-submitted to the Local Management Committee (formerly Programme Monitoring Committee) annually as a minimum and also in the event of significant changes.

In line with these regulatory requirements, the purpose of the Communication Plan is to increase awareness of the ERDF Programme in the West Midlands - what it does; and its achievements and impact regionally.

The objectives of the Communications Plan include -

- describing the publicity measures to be implemented;
- how potential applicants and beneficiaries will be informed of the availability of funding from the Programme;
- publicising activities undertaken, what has been achieved and giving positive messages about the Programme;
- ensure the information and publicity requirements of EU regulations are met; and
- detail how information and publicity measures are to be reviewed and evaluated.

The key messages to be promoted, in line with the aims and objectives of the plan, can be described briefly as being the measures required to fulfil the vision for the West Midlands' Programme as set out in the Operational Programme and delivered through the activities of Priority Axes 1 to 5. The messages can be stated briefly as - transforming the lives; developing the innovation potential of the region; supporting business creation and diversity; encouraging enterprise in those areas of greatest need in the region; learning from others; and supporting the Lisbon agenda.

The information in the remainder of this section gives examples of events, activities and work carried out during 2014 towards meeting the requirements set out in the Communications Plan. The main information and publicity tools that are expected to be used to deliver the Communication Plan for 2015 and forthcoming years are set out in **Annex 1**. This lists a number of the key planned activities as set out in the

Communications Plan, including evaluation criteria and targets set. A commentary has been included in the table to illustrate performance against the evaluation targets set for each activity.

### **Government Marketing Freeze**

In June 2010, the Government placed a freeze on any new spend on marketing and communication activities. This decision was made in line with the changes to Regional Development Agencies and the conclusion to abolish all RDAs by March 2012. The freeze had a significant impact on the communication activities during 2014 and all activities had to be delivered and completed in house.

### **Communications Plan and Review Report:**

In line with our commitment to annually review the ERDF Communication Plan, version 9 of the plan was developed in January 2014. This ensured the content and planned activities were still accurate and relevant. In addition to this a Review Report was published which captured previous years achievements in relation to the stated intentions in the Communication Plan. All documents were submitted to the Local Management Committee and approved.

### **Activities Delivered**

**ERDF Communications Survey and Evaluation:** The communication activities delivered during 2013 have been assessed with external partners through an annual survey. This has helped to assess the impact and effectiveness of the communication activities and channels used, and also gain feedback on needs going forward. The survey took place in early 2014 and results were fed into the Communications Plan for 2014.

In addition to the annual survey, the communication activities are evaluated on an on-going basis and after any key activity delivered. This includes but is not restricted to media monitoring of articles featuring ERDF projects, website stats, feedback forms used for events and verbal feedback from partners and through monitoring visits.

**Website:** During the year the various pages of the website have been reviewed and updates as appropriate, to ensure they are accurate, informative and timely. The information on the website includes - the operational programme and detailed information relating to each of the priority axes; achievements and successes; the regulations and guidance materials and a list of beneficiaries. The total number of hits to the West Midlands pages of the website during 2014 was 101,022.

**ERDF e-news:** The e-news is one of the ways the ERDF team communicate with partners on key messages, achievements and news on the ERDF Programme. Each edition also features a number of case studies of approved projects under the Programme. During 2014 two editions were completed in May and September.

**Programme Updates:** Programme Update emails are sent to our ERDF partners when we need to communicate important timely information on the Programme and to provide regular updates on the status of delivery activities. During the year updates were distributed in February, April, July, September, November and December. Some of the areas covered through the updates include:

- Spend and performance updates
- Promotion of publications produced e.g. Case study booklet
- Local Management Committee decisions

- Updates and developments on the 2014 to 2020 ESIF Growth Programme

### **Promotional Documents:**

#### Business Support Guide

During the year version 5 of the West Midlands ERDF Programme Business Support Guide was produced. The guide captures the details of all the current business support initiatives being delivered in the West Midlands and provides guidance on where individual businesses seeking assistance can go for more information. The guide has been produced as a PDF and also a searchable online database. The guide in both formats is available on the website.

#### Case Study Booklet

A case study booklet was published in December 2014, which provided details of 22 projects in the West Midlands that had received ERDF resources. Based on priority areas, through text and images the case studies showcase the impact that is being delivered at a local level and the difference it is making. The booklet was produced in an electronic format, distributed to West Midlands partners and placed on the website for download. **A copy of this document has been inserted at Annex 3.**

**List of Beneficiaries:** During the year a list of beneficiaries was updated twice and published on the website in January and May 2014.

# Annex 1

## Planned Activities for 2015 and onwards from the Communications Plan to Promote the 2007-2013 ERDF Programme

Activity	Aim	Target Audience	Timetable	Expected Results	Evaluation Criteria	Links to EC Publicity Requirements
<b>Website</b>	To act as a key communication tool for the ERDF Programme, providing information on Programme developments, key messages, access to documents, application guidance and a point of enquiry.	General public, ERDF projects, Media, Opinion formers at national, regional and local level Regional stakeholders and partners from all sectors, European Commission ERDF staff.	Update and refreshed as required.	Establishment of a main information source which displays all key information for all audiences regarding the Programme	<u>Targets:</u> - Average of 250 hits per month on the ERDF section - Quarterly review - Inclusion in annual questionnaire	In line with Commission Regulation (EC) No 1828/2006 Article 5.1, 5.2, 5.3 and 7.1
<b>eMDs (Programme Updates)</b>	To communicate updates on Programme delivery	ERDF projects, Potential ERDF projects, Opinion formers at national, regional and local level, Regional stakeholders and partners from all sectors, European Commission	Programme Updates – produced March, May, July and November 2015	Target audiences are informed of Programme developments and bidding opportunities are promoted as widely as possible to help with understanding, knowledge and applications for funding	<u>Targets:</u> - Programme Updates through year - target of 4 during 2015 - Inclusion in annual questionnaire	In line with Commission Regulation (EC) No 1828/2006 Article 5.2, 5.3 and 7.1
<b>Promotional and guidance materials</b>	To publicise and explain the Programme and its achievements to raise awareness and knowledge.	General public, ERDF projects - potential and those awarded funding, Opinion formers at national, regional and local level, Regional stakeholders and partners from all sectors, European Commission	West Midlands ERDF Programme Review Report – produced November 2015	Recipients are informed and have a greater awareness of the successes of the West Midlands ERDF Programme and the impact that the projects funded have had at a local level	<u>Targets:</u> - 1 x West Midlands ERDF Programme Review Report – November 2015 - Inclusion in annual questionnaire	In line with Commission Regulation (EC) No 1828/2006 Article 7.1, 8 and 9

<b>List of beneficiaries</b>	<p>To keep all audiences informed on the projects which have been approved for ERDF funding. List to include project names, the names of the operations and the amount of public funding.</p> <p>In line with Article 7.2(d) of Commission Regulation (EC) No 1828/2006.</p>	General public, ERDF projects, Media, Regional stakeholders and partners from all sectors, European Commission Programme Delivery Team: West Midlands	List updated twice during 2015 – January and June	List of beneficiaries produced on a regular basis and accessible on the website. Establishes an open and transparent method of communicating information on how the Programme is being delivered.	<p><u>Targets:</u></p> <p>- Updated on website every six months – January and June 2015</p>	In line with Commission Regulation (EC) No 1828/2006 Article 6 and 7.2
<b>Internal Comms</b>	To keep Growth Delivery Team staff and wider DCLG directorate staff informed on Programme news and developments. This will ensure consistency of external and internal messages and raise awareness and knowledge of the Programme with staff	Growth Delivery Team, Wider DCLG directorate staff	Information distributed as required	Growth Delivery Team and wider DCLG Directorate staff are kept informed on the key developments, news and achievements of the Programme through this weekly tool. Ensures awareness is kept high and key information is circulated to all teams.	<p><u>Targets:</u></p> <p>- Articles produced annually for staff newsletter - All external communication activities circulated for awareness - Verbal feedback from staff</p>	N/A

## Annex 2

### Declarations of Expenditure Made to the European Commission

The table below lists the declarations submitted to the Commission in respect of the West Midlands ERDF Programme by the Certifying Authority by the end of 2014 and the payments made in return by the Commission. The amounts shown are in Euros.

Declaration No. / Priority Axis	Total Eligible Expenditure (€)	Co-Financing Rate	Requested Amount (€)	Amount Paid by EC (€)
<b>WM-Reg/3</b>	Declared 05/11/09		Paid 18/12/09	
P1	13,887,841.80	50%	6,943,920.90	
P2	2,411,406.67	50%	1,205,703.34	
P3	230,433.03	50%	115,216.52	
P5	1,538,469.73	50%	769,234.86	
Total declared	18,068,151.23		9,034,075.62	9,034,075.62
<b>WM-Reg/14</b>	Declared 16/12/09		Paid 10/02/10	
P1	7,873,349.51	50%	3,936,674.76	
P2	2,450,929.39	50%	1,225,464.70	
P3	77,670.52	50%	38,835.26	
P5	299,470.56	50%	149,735.28	
Total declared	10,701,419.98		5,350,710.00	5,350,710.00
<b>WM-Reg/20</b>	Declared 22/12/09		Paid 10/02/10	
P1	4,863,844.65	50%	2,431,922.32	
P2	19,824,952.67	50%	9,912,476.34	
P3	106,764.05	50%	53,382.02	
P5	595,597.60	50%	297,798.80	
Total declared	25,391,158.97		12,695,579.48	12,695,579.48
<b>WM-Reg/31</b>	Declared 05/08/10		Paid 29/12/10	
P1	12,536,731.29	50%	6,268,365.65	
P2	24,328,194.45	50%	12,164,097.23	
P3	372,321.77	50%	186,160.89	
P4	277,137.64	50%	138,568.82	
P5	1,446,954.30	50%	723,477.15	
Total declared	38,961,339.45		19,480,669.74	19,480,669.74
<b>WM-Reg/39</b>	Declared 03/06/11		Paid 04/08/11	
P1	8,132,072.17	50%	4,066,036.08	
P2	22,493,006.82	50%	11,246,503.41	
P3	861,627.96	50%	430,813.98	
P4	443,803.52	50%	221,901.76	
P5	1,227,971.63	50%	613,985.82	
	33,158,482.10		16,579,241.05	16,579,241.05
<b>WM-Reg/52</b>	Declared 23/06/11		Paid 05/08/11	
P1	16,940,089.42	50%	8,470,044.71	
P2	30,080,489.77	50%	15,040,244.88	
P3	1,619,694.83	50%	809,847.42	
P4	450,654.10	50%	225,327.05	
P5	1,177,691.82	50%	588,845.91	
	50,268,619.94		25,134,309.97	25,134,309.97

Declaration No. / Priority Axis	Total Eligible Expenditure (€)	Self-Declared Correction (€)	Corrected Total Eligible Expenditure (€)	Co-Financing Rate	Requested Amount Paid (€)	Amount Paid by EC (€)
<b>WM-Reg/76</b>		Declared 20/12/11		Paid 18/01/12		
P1	7,577,064.57	0.00		50%	3,788,532.28	
P2	20,426,150.90	0.00		50%	10,213,075.45	
P3	2,813,922.30	0.00		50%	1,406,961.15	
P4	215,211.91	0.00		50%	107,605.96	
P5	291,331.40	0.00		50%	145,665.70	
	31,323,681.08	0.00			15,661,840.54	15,661,840.54
<b>WM-Reg/86</b>		Declared 16/08/12		Paid 20/09/12		
P1	7,249,864.85	0.00		50%	3,624,932.42	
P2	3,414,348.45	0.00		50%	1,707,174.23	
P3	2,251,916.18	0.00		50%	1,125,958.09	
P4	126,992.50	0.00		50%	63,496.25	
P5	201,240.62	0.00		50%	100,620.31	
	13,244,362.60	0.00			6,622,181.26	6,622,181.28
<b>WM-Reg/100</b>		Declared 20/12/12		Paid 28/05/13		
P1	41,891,078.08	-266,510.11	41,624,567.96	50%	20,812,283.98	
P2	38,369,195.58	-604,376.86	37,764,818.69	50%	18,882,409.34	
P3	34,107,328.57	-42,670.47	34,064,658.13	50%	17,032,329.06	
P4	187,089.84	0.00	187,089.84	50%	93,544.92	
P5	2,574,902.12	-23,442.56	2,551,459.56	50%	1,275,729.78	
	117,129,594.19	-937,000.00	116,192,594.18		58,096,297.08	58,096,297.08
<b>WM-Reg/141</b>		Declared 16/12/13		28/04/2014		
P1	31,395,145.24	-360,204.00	31,034,941.24	50%	15,517,470.62	
P2	69,448,189.89	-315,116.00	69,133,073.89	50%	34,566,536.94	
P3	32,163,758.85	-268,592.00	31,895,166.85	50%	15,947,583.42	
P4	166,726.88	-2,292.00	164,434.88	50%	82,217.44	
P5	2,285,925.11	-20,226.00	2,265,699.11	50%	1,132,849.56	
	135,459,745.97	-966,430.00	134,493,315.97		67,246,657.98	67,246,657.98
<b>WM-Reg/150</b>		Declared 09/10/2014		01/12/2014		
P1	4,352,674.62	0.00		50%		
P2	2,403,558.72			50%	1,201,779.37	
P3	9,112,524.82	0.00		50%	4,556,262.41	
P4	0.00	0.00		50%	0.00	
P5	565,652.21	0.00		50%	282,826.11	
	16,434,410.37	0.00			8,217,205.21	8,217,205.21



Declaration No. / Priority Axis	Total Eligible Expenditure (€)	Self-Declared Correction (€)	Corrected Total Eligible Expenditure (€)	Co-Financing Rate	Requested Amount Paid (€)	Amount Paid by EC (€)
<b>WM-Reg/162</b>		Declared 19/12/14		16/03/2015		
P1	32,391,072.40	0.00		50%	16,195,536.19	
P2	56,284,930.12	0.00		50%	28,142,465.07	
P3	59,451,593.82	-574,884.00		50%	29,438,354.92	
P4	0.00	0.00		50%	0.00	
P5	2,056,403.92	0.00		50%	1,028,201.96	
	150,184,000.26	-574,884.00			74,804,558.14	74,804,558.14
<b>Total</b>						
P1	189,090,828.60	-626,714.11	188,464,114.48	50%	94,232,057.23	94,232,057.23
P2	291,935,353.43	-919,492.86	291,015,860.54	50%	145,507,930.30	145,507,930.30
P3	143,169,556.70	-886,146.47	142,283,410.26	50%	71,141,705.14	71,141,705.14
P4	1,867,616.39	-2,292.00	1,865,324.39	50%	932,662.20	932,662.20
P5	14,261,611.02	-43,668.56	14,217,942.46	50%	7,108,971.24	7,108,971.24
Totals at December 31 <sup>st</sup> 2014	640,324,966.14	-2,478,314.00	637,846,652.13		318,923,326.11	318,923,326.11

## **Annex 3**

### **ERDF Projects from the West Midlands' Programme**

#### **Case Study Booklet – Edition 3**

Inserted below is a copy of the case study booklet issued to partners in December 2014. It highlights a number of projects that have benefited from the receipt of ERDF funding.



The booklet is also available online at

<https://www.gov.uk/erdf-programmes-progress-and-achievements#case-studies>

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