



Ministry of Housing,  
Communities &  
Local Government



**European Union**  
European Structural  
and Investment Funds

# Ex-ante Evaluation of the England ERDF 2014-2020 Operational Programme

Final Report by Regeneris Consulting, with Land Use Consulting, Mott MacDonald & OldBell3

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# Glossary

BIS	Department of Business Innovation and Skills
CPP	Community Planning Partnerships
CSF	Common Strategic Framework
DCLG or CLG	Department of Communities and Local Government <sup>1</sup>
EA	Environment Agency
EAFRD	European Agricultural Fund for Rural Development
EIA	Equality Impact Assessment.
EMFF	European Maritime and Fisheries Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
ESI	European Structural and Investment
EC	The European Commission
EU	The European Union
EU2020	Europe 2020
FTE	Full Time Equivalent
GVA	Gross Value Added
HRA	Habitats Regulation Assessment
ITIs	Integrated Territorial Investments
NUTS	Nomenclature of Territorial Units for Statistics
NRP	National Reform Programme
OP	Operational Programme
PA	Priority Axis
PMC	Programme Monitoring Committee
PSED	Public Sector Equality Duty
RME	Research, Monitoring and Evaluation
R&D	Research and Development
SEA	Strategic Environmental Assessment.
SMART	Specific, Measurable, Achievable, Relevant and Time-bound
SMEs	Small and Medium Sized Enterprises
SO	Specific Objective
SWOT	Strengths, Weaknesses, Opportunities, and Threats
TEN-T	Trans-European Transport Network
TO	Thematic Objective
UKCSRs	UK Country-Specific Recommendations
UKPA	United Kingdom Partnership Agreement

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<sup>1</sup> DCLG was renamed the Ministry of Housing, Communities and Local Government in January 2018.

# Executive Summary

- i. Regeneris Consulting, in conjunction with Land Use Consultants, Mott MacDonald and Old Bell<sup>3</sup>, was commissioned by the Department for Communities and Local Government (CLG) in October 2013 to undertake the ex-ante evaluation of the English European Regional Development Fund (ERDF) programme 2014-20. The new programme will cover all of the European Commission's categories of regions within England, namely Less Developed, Transitional and More Developed regions. ERDF is one of the European Structural Investment (ESI) Funds, alongside the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD), the European Maritime and Fisheries Fund (EMFF) and the Cohesion Fund.
- ii. This report is only concerned with the ex-ante evaluation of the ERDF Operational Programme (OP) for England. An ex-ante evaluation is required by European legislation as part of the process of developing Operational Programmes, which sets out the basis for the utilisation of ESI Funds. The formal requirements for ex-ante evaluation are laid down in Article 55 of the Common Provisions Regulation (CPR). While the evaluation process has involved the appraisal of all those elements required by Article 55, the report itself is not intended as a comprehensive appraisal of all of these issues.
- iii. The Regulation also requires the ex-ante evaluation to incorporate the requirements for the Strategic Environmental Assessment (SEA) Directive<sup>2</sup>, which requires the assessment of the potential impact of the ERDF programme on the environment. Following consultations with the statutory consultees for SEA, it was concluded that a Habitats Regulations Assessment<sup>3</sup> was not required.
- iv. The ex-ante evaluation is intended to be an iterative process which enables the CLG-led programme drafting team to improve the programme. Our comments and advice have, generally, been given serious consideration and in many cases led to changes and a strengthening of the approach, which have now been reflected in the OP. However, as reflected in the tone and substance of our comments which follow in later chapters, the drafting team have not yet been able to address all of our comments.
- v. The ability of the evaluators to undertake the ex-ante evaluation has been hampered by the delays in preparing a complete draft of the OP. Significant changes have been made to the programme strategy and there has been filling of necessary information gaps to fulfil the regulations, close to the deadline for submission of the OP to the European Commission. Many of these changes have been necessary following the EC's feedback on the England chapter of the UK Partnership Agreement (UKPA) in June 2014.
- vi. This report is based on the latest available version of the OP available at the time of review, namely Version 10 11<sup>th</sup> July 2014 (plus subsequently updated versions of Priority Axes 2, 7 and 8 provided separately by CLG to the ex-ante evaluators). CLG has made changes to the OP following the completion of this draft of the ex-ante evaluation, many of which will help to address our comments and concerns. We will continue to work with

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<sup>2</sup> Directive 2001/42/EC of the European Parliament and of the Council of 27 June 2001

<sup>3</sup> Council Directive 92/43/EEC on the Conservation of natural habitats and of wild fauna and flora

CLG following the submission of the OP, including the updating of the ex-ante evaluation report.

## Structure and Focus of the Programme

- vii. CLG has chosen to have a single ERDF programme for England, incorporating Less Developed Areas (LDA), Transitional Areas (TA) and More Developed Areas (MDA). England includes multiple MDAs and TAs, but only one LDA namely Cornwall and the Scilly Isles.
- viii. The OP notes in several places HM Government's intention of combining the three categories of region in a single programme. The argument for this approach in most priority axes is that it will enable:
- A more coherent approach to be adopted, including collaborative actions across the different categories of region
  - Partners to make investment choices that will ensure that ERDF is targeted at the challenges of highest priority and potential across specific territories at the most appropriate spatial level
  - The development needs are as varied within as across categories of region (certainly for TAs and MDAs).
- ix. Whilst this may well be the case, it is not readily apparent how far this form of coherence and collaboration is important or likely to arise, given the bottom up approach to delivering the programme through 39 Local Enterprise Partnerships (LEPs)<sup>4</sup>. This aspect of the OP needs to be strengthened, through identifying more clearly where it is seen to be important and the steps which are being taken to encourage joint working and implementation at higher spatial scale where this is appropriate.
- x. The Priority Axes and the Specific Objectives for the England ERDF OP cover eight of the ten Thematic Objectives (TOs) set out in the CPR. It excludes skills and employment related TOs (TO 8 and 10), on the basis that these are addressed by the ESF programme. A total of ten priority axis (PAs) cover these eight TOs, with two PAs for transport interventions in Cornwall and the rest of England respectively, and a Sustainable Urban Development focused PA. The evidence justifying the selection of these TOs/PAs is considered below, as is the concentration of ERDF resources.
- xi. We have provided on-going advice to CLG concerning the structure of the ERDF programme. Whilst it is consistent with the regulations, we believe that it raises a number of potential risks (which are explored in more detail below):
- The programme structure consists of a large number of priority axes, investment priorities and specific objectives, a number of which have fairly small allocations of ERDF. There is a significant risk that these parts of the programme add little value overall to the programme due to a lack of scale and integration. CLG needs to demonstrate more clearly the added value of including TOs will relatively modest allocations and the steps which will help to ensure they add genuine value to the programme as a whole.

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<sup>4</sup> There were 39 LEPs before the merger of Northamptonshire LEP and South East Midlands LEP in March 2017.

- Although aspects of the programme strategy do clearly distinguish and address the needs and opportunities of different categories of region, there is a risk that the programme is not sufficiently tailored to the different categories of region. As noted in paragraph viii above, CLG needs to provide further information on how the OP will achieve this where it is appropriate.
- It will be challenging to manage a programme with a complex structure and associated performance framework (i.e. a single programme cover the three categories of region, ten priority axes and eighteen investment priorities). If it is to pursue this structure, CLG needs to ensure that the design and implementation of the monitoring and evaluation framework is able to satisfactorily accommodate this additional complexity.

## Socio-economic Justification

- xii. The socio-economic analysis contained in the OP needs to be read in conjunction with the UKPA, which contains more detailed analysis in general and especially for a number of TOs. The analysis in the OP has been developed and improved considerably since the first draft in autumn 2013. The section is well sourced and draws on a wide range of statistics and research. It now provides a reasonably coherent justification for the nature of investment activity planned in the OP within each TO/Priority Axis. In other words, there is a logic chain from the socio-economic analysis, the issues identified and the proposed types of investment. Many of our earlier concerns have been addressed.
- xiii. Our main overall comments which remain outstanding are:
- There is a lack of evidence presented on the potential efficacy and value for money for the types of interventions proposed (as opposed to the market failure, need and policy cases which are generally well made). We appreciate the evidence base upon which to draw is weak in terms of its consistency and robustness (both in England and more widely across the EU), but we are aware of the body of knowledge and experience about the effectiveness of interventions which exists within CLG and its partners. The OP should make it much clearer how this knowledge base has been used in shaping the investment strategy for the programme.
  - There is not a consistent approach to measuring and assessing spatial differences, in particular the differences between the Less Developed Area, the Transition Areas and the More Developed Areas in England are not properly identified.
  - It is also the case that the factors driving spatial disparities in economic performance and the links to ERDF-supported interventions are not clearly set out.
  - The evidence used and the analysis carried out is only used in a limited way to provide a coherent justification for the proposed resource allocation across PAs or between different Investment Priorities within PAs). Whilst we fully understand the bottom-up nature of resource allocation via the LEPs, it would provide comfort if the top-down national analysis provided clearer support, in a broad sense at least, of the parameters of the resource allocation.

## Consistency and Coherence of the Programme Strategy

- xiv. There is good level of consistency between the UKPA and the draft OP document, both in terms of the socio-economic evidence, as well as the investment priorities and specific

objectives. There are a number of exceptions, where there are differences in objectives and results indicators. Although the reasons for the divergence are not clear, these are likely to reflect the different drafting timescales of the two documents and we expect these to be fully aligned in subsequent drafts of the documents.

- xv. Based on our knowledge of England's economy and the draft investment strategy for the programme, we are confident that the OP should make a positive contribution to meeting the EU2020 targets for an increase in the employment rate, an increase in research and development and investment, the economic and employment contribution of SMEs and an increase in renewable energy and resource efficiency. As such, there is a good level of consistency between the OP and EU2020. However, the adoption of an approach to delivery which will see the programme delivered through 39 LEPs<sup>5</sup> and the allocation of ERDF across eighteen investment priorities, will make it particularly challenging to judge the potential impact on the EU2020 targets. If this approach is to be adopted, it will be essential that the monitoring and evaluation framework provides a robust basis for judging the contribution the programme makes to EU2020.
- xvi. Linked to this, the socio-economic evidence used and the analysis carried out provides a relatively weak justification for the proposed resource allocation (across TOs or between different IPs) which underpins the OP's investment strategy. Although the use of this evidence and other considerations to justify the proposed allocation at anything other than a fairly high level can be challenging, there is scope to strengthen through better use of the available evidence. The programme does however meet the regulatory requirement for the concentration of ERDF resource by thematic objective, although more detailed comment is provided later in the summary on the potential shortcomings of the proposed allocation.
- xvii. As noted below, the internal coherence within the programme (i.e. between priorities) is reasonable, however there are a number of issues around potential overlap and duplication between priorities which need to be resolved (eg coverage of energy and wider resource efficiency in PAs 4 and 5).

## Priority Axes

### Priority Axis 1: Research and Innovation

- xviii. Overall, Priority Axis 1 is more developed than other Priority Axes both in terms of the justification for ERDF investment, the objectives it sets and the indicative range of proposed investments. There is clear recognition of both England's key strengths and the challenges to be addressed in terms of boosting commercial innovation alongside increased R&D investment. The result is that the logic of PA1 is clear, focused and consistent with key EU and national policy. However, some detail on links with other priority axes would have given a clearer sense of the coherence of PA1 as part of the Operational Programme.
- xix. The Specific Objectives for PA1 follow from the specified needs and opportunities, and reflect the requirements of the ERDF regulation. The ex-ante evaluators have sought clarification about the potential scale and nature of capital (infrastructure) investment, but have received assurance both that such investment would be limited and would not involve the type of investment envisaged in ERDF investment priority 1a. However, the

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<sup>5</sup> There were 39 LEPs before the merger of Northamptonshire LEP and South East Midlands LEP in March 2017.

range of actions which PA1 might support would have benefited from additional examples and explanation of how they relate to the specific objectives.

- xx. The ex-ante evaluators recognise the difficulties of measuring commercial innovation activity in its broad sense. PA1 has sought to work within the limitations of the data available, and to strike a balance in the results indicators between capturing the breadth of activity that would be supported by ERDF but to give this a value in financial terms. The latter is important to the overall objective for PA1. However, there are risks that the use of R&D tax credits, and an indicator of the value of HEI services provided to SMEs, fails to fully capture the OP's impacts.
- xxi. The Operational Programme's investment in research and innovation has to be underpinned by a Smart Specialisation Strategy. While PA1 sets out how the Strategy will guide ERDF investment, this element of the programme could be further strengthened by additional specific reference to its priority sectors and technologies and how it will be applied through the guiding principles for investment.

## Priority Axis 2: Enhancing Access to and use of ICT

- xxii. PA2 identifies two specific objectives, across two investment priorities. The first of these is focused on increasing access to and take up of both superfast broadband (SFB) and ultrafast broadband. The second aims to increase exploitation of ICT among SMEs.
- xxiii. The Priority Axis shows a strong fit with UK and EU policy, such as the Digital Agenda for Europe, which sets targets for coverage and exploitation of broadband and encourages measures which will increase take-up. There are a number of outstanding issues around the coherence of the priority, which are in need of further attention. There is still some overlap between the actions and outputs being proposed for the two specific objectives. The Priority Axis also fails to provide a clear statement on how it will minimise duplication of activity funded through PA1 (R&I) and PA3 (SME competitiveness), both of which include business support measures which could use digital technologies, and with EAFRD which permits investments in broadband infrastructure.
- xxiv. The intervention logic is largely sound and is based on clear market failure arguments, with, in the evaluator's view, sufficient justification for investment in infrastructure where it generates sufficient economic benefit and value for money. However, it is the conclusion of the ex-ante evaluators that the first specific objective is still overly focused on SFB investment (compared to UFB) while the second is overly focused on increasing online sales. Ambitious result targets are set for both of these priorities, and there is a danger that this could influence the types of projects which are funded, with a bias toward SFB and e-commerce, at the expense of other interventions which could have a greater economic impact and may offer greater value for money (eg UFB or other ICT applications).

## Priority Axis 3: SME Competitiveness

- xxv. Priority Axis 3 is focused on enhancing the competitiveness of SMEs. The Priority Axis covers three Investment Priorities and includes three Specific Objectives. The scope of investments encompasses those focused on the growth of existing and newly established SMEs as well as investments to increase levels of entrepreneurship and start-up activity.
- xxvi. The focus on SME growth shows a strong fit with EU and UK policy but the Priority Axis lacks a clear description of the focus of actions and outputs so it is difficult to rigorously test whether the Priority Axis is fully consistent with policy.



- xxvii. There are various outstanding issues relating to the coherence of the Priority Axis. In particular, the distinction between the Specific Objectives (and the associated actions and outputs) remains unclear. As currently drafted there is significant overlap between the first two Specific Objectives and a risk of duplication and lack of clarity for programme managers and bidders. There is also insufficient clarity provided on target beneficiaries and the distinction between activities under this and other Priority Axes.
- xxviii. The rationale for actions within Priority Axis 3 is not clearly stated. This is linked to a lack of specificity in the objectives and the underpinning investment strategies and it remains unclear what, specifically, investments under this Priority Axis are intending to achieve. The most important issues to be resolved are:
- Revisit the logic chain to ensure that there is a clear narrative thread running through the Priority Axis
  - Carefully consider the interpretation of the selected Investment Priorities and Specific Objectives and provide more clarity on the distinction between them
  - Clearly explain and justify whether activities under priority axis 3 will be targeted towards specific types of SMEs and start-ups
  - Provide more clarity on the distinction between activities under priority axis 3 and others which contain an SME Competiveness element (most notably priority axis 1 and 3).

#### Priority Axis 4: Shift towards a Low Carbon Economy

- xxix. Overall the fit with European and national policy as well as LEP aspirations is acceptable at a high level for this priority axis. However, beneath the headline approach, there are significant weaknesses. The SOs currently lack full clarity, coherence and prioritisation of indicative activities, meaning that the OP does not currently give a clear sense of how specifically it is responding to the policy and socio-economic context, and how it will be able to target interventions to deliver change.
- xxx. The priority axis is split into five investment priorities which provide a useful framework. However, there is significant overlap in the indicative activities set out under different IPs/SOs, and potential overlap with R&D and innovation investments under PA1, waste reduction measures under PA6 and SUD actions under PA10, where a clearer distinction is needed. Each IP/SO would benefit from some refinement and clarification of the nature of interventions that the OP will support, in order to provide a clear, coherent and targeted approach to use of funds.
- xxxi. The broad development needs and framework for interventions are adequate at a high level and the financial allocation to this priority axis meets the minimum financial allocation required. However, there are some particular weaknesses in the detailed development needs for individual SOs, clarity on the nature of indicative activities, suitability of output indicators, suitability and definition of result indicators and quantification of both output and result targets.
- xxxii. The most important issues to be resolved are:
- Resolving the issue of overlapping indicative activities and further refining the list of indicative activities under each SO, to ensure each provides a clear, coherent set of activities that demonstrate where investment will be prioritised to achieve greatest impact.

- Reviewing and refining the output and result indicators, and quantify targets for these.
- Reviewing the need to provide a response to ex-ante conditionality 4.2 (the OP currently does not) and filling a few minor gaps in the evidence for other ex-ante conditionalities.

### Priority Axis 5: Climate Change Adaptation

- xxxiii. The focus of this priority axis on flood risk management to protect economic development is consistent with the policy and socio-economic analysis undertaken, in particular the 2012 UK Climate Change Risk Assessment identifying flood risk as the most significant and specific climate challenge faced by the UK. The UKPA demonstrates the geographic focus for investments which is primarily in areas of the North and Midlands where market failure is more acute.
- xxxiv. This investment priority has deliberately focused in on one investment priority and objective, providing strong internal coherence. The nature of the specific objective should complement investments in other priority axes, in particular those around brownfield remediation to support employment land development in Priority Axis 6. Overall coherence is therefore strong for this priority axis.
- xxxv. The intervention logic is relatively clear, however it could be strengthened in a number of areas, in particular: clarifying how certain indicative activities (eg carbon sequestration, or physical environmental enhancements) would contribute to flood risk management, clarifying how sites for investment would be identified and prioritised, reviewing suitability of some output indicators, reviewing suitability and definition of result indicators and quantification of both output and result targets.
- xxxvi. The most critical issues to be resolved are:
- Providing a clearer statement about how areas at risk will be assessed and prioritised and more clearly defining a number of the indicative activities
  - Reviewing and refining the result indicator, and develop quantification of output and result indicators.

### Priority Axis 6: Protecting the Environment

- xxxvii. The national policy and socio-economic context in the UKPA highlights a number of significant environmental challenges for England. While the two investment priorities show consistency with the aim of this priority axis by focusing on areas where there is a dual opportunity for addressing these environmental challenges and contributing to economic growth, the overall case for investment in this priority axis and the primary changes that this is seeking to deliver (whether economic or environmental) are not sufficiently clear.
- xxxviii. The priority axis is sensibly broken down into two complementary investment priorities providing a useful framework. The nature of the investment priority does not strongly overlap with other investment priorities, however there are a few areas of duplication across priority axes (for example references to waste reduction activities under PA4, when this more naturally sits under PA6), and there should be clearer linkages made to linked activity under the SUD in Priority Axis 10. The interventions also require further refinement to ensure they provide a clear, coherent and targeted approach to use of funds.

- xxxix. The overall intervention logic at present has a number of weaknesses, including lack of clarity on the overall outcomes that the priority axis will deliver (whether economic or environmental), lack of clarity and coherence in the set of interventions and lack of clarity regarding the baseline or methodology for measuring the result indicators.
- xl. The most critical issues to be resolved are:
- Refining the narrative, particularly the description of investment priorities and their indicative activities to provide greater clarity around how investment under this priority axis will deliver the intended economic and environmental targets – it currently falls well short of meeting the requirements for clarity of rationale and investment strategy, although we understand from our discussions with CLG that the priority axis is being amended to address this point
  - Developing the set of indicative activities to provide a clear, coherent and targeted set of interventions
  - Reviewing and quantifying the outputs to be delivered under this priority axis
  - Clarifying the baseline and methodology for the result indicators and quantifying the result targets
  - Reviewing the need to respond to ex-ante conditionality 6.2.

#### Priority Axis 7: Sustainable Transport in Cornwall and the Isles of Scilly

- xli. PA7 identifies two specific objectives across two investment priorities. The first of these aims to improve Cornwall's links with the TEN-T network, Europe's strategic infrastructure network. The second aims to improve accessibility and connectivity within Cornwall and the Isles of Scilly through developing sustainable means of transport.
- xlii. The Priority Axis is largely consistent with EU policy to focus structural funds capital investment on the TEN-T network. However, it could draw much stronger links with local transport strategies for Cornwall. As well as improving the consistency with local policy, this would help to provide a much stronger and more specific focus for the second specific objective.
- xliii. PA7 is internally coherent and does not appear to conflict with any other priority axes or other structural funds. However it should clarify that SO1 is not proposing investments which will provide regional links into the TEN-T network, which should be funded under a separate investment priority (7b).
- xliv. In general, the rationale for the priority axis is not as strong as it should be on the basis of our understanding of local need and the justification for investment in this specific LDA. The rationale and logic chain for actions in SO2 is in need of further attention, as it is proposing a wide range of activity from what is a relatively small pot of ERDF resource. Much of the text in the development needs section is generic and does not provide the rationale for the list of actions which follow.

#### Priority Axis 8: Sustainable Transport in the Rest of England

- xlv. PA8 identifies two specific objectives across two investment priorities. SO1 is concerned with improving connections to the TEN-T network; the strategic infrastructure network which connects Europe, while SO2 focuses on delivering more environmentally sustainable forms of transport. It is only proposing to invest in Transitional Areas.

- xlvi. The Priority Axis is consistent with EU policy to focus investment on improving access to the TEN-T network and appear to be broadly consistent with the key national strategies for road improvements and improving access to public transport. PA8 is also internally coherent; there does not appear to be any overlap between the activities, outputs and result indicators of the two specific objectives or with activity being delivered under other priority axes or other ESI funds.
- xlvi. The rationale for actions in SO2 is still very weak and in need of further attention. The development needs section is very broad and does not give any indication of the key challenges or priorities that it is seeking to address. As this Priority Axis has been based on a limited number of ESIF strategies, it is necessary to provide a much stronger justification for its inclusion (given the limited pot of ERDF resource) and to be much more specific about the focus of investment. Without this clarity around the rationale, it is not readily apparent what added value the SO will bring to the programme.

### Priority Axis 9: Promoting Social Inclusion

- xlvi. PA9 includes just one investment priority, focused on the development of community led local development strategies. Within this IP, the OP identifies two specific objectives, one focused on capacity building for local communities and another targeted at reducing the risk of poverty by improving access to jobs.
- xlvi. This priority axis is consistent with the European Platform against Poverty and Social Exclusion. This highlights the need to address the multiple forms of poverty and disadvantage experienced by deprived communities, and encourages responses which deliver joined up services that address the multiple forms of disadvantage. CLLD also shows a strong fit with the UK Government's localism agenda, which encourages communities to take control of their own issues and shape their own solutions, recognised in 'Local Growth: Realising Every Place's Potential'.
  - i. There is overlap between the activities delivered in this priority axis and PA3. This is permitted in the ERDF regulations if it is in the context of community led, integrated strategies. The key concern about the internal coherence of this priority axis is with its fit with specific objective 3 in priority axis 3 which also focuses on increasing entrepreneurship in deprived areas. The OP should be much clearer on the distinction between these and how it will ensure that this type of activity is not duplicated as a consequence of the targeting.
  - ii. The priority axis presents a strong rationale for the use of CLLD as a delivery mechanism for ESI funds, and demonstrates the added value of this approach in deprived areas. A key issue to address is the need for greater clarity over how CLLD projects will be selected and how funding will be allocated to individual projects (and opportunities to link to other funding streams, as well as how the intervention rate may vary to enable access by the voluntary and community sector). Based on the current information, it appears CLLD projects will have an average allocation of £2.4m which may not be enough to achieve the range of objectives described here (although providing a clearer indication of how ERDF will be used alongside existing local strategies and other sources of funding may help to address this point).

### Priority Axis 10: Sustainable Urban Development

- iii. Sustainable Urban Development (SUD) is a delivery mechanism for ESI funds which allows authorities to draw on funding from several priority axes (and different structural funds) to help deliver an integrated strategy for an area. In England it is being applied to

all cities with a population over 600,000. The Priority Axis has identified 13 specific objectives across 13 investment priorities upon which SUD will draw.

- liii. The current draft of PA10 fails to convey the main purpose of SUD, how it will be distinct from the actions delivered under the other thematic objectives and what the added value of this approach might be. PA10 appears to have simply replicated each of the individual priority axes upon which SUD will draw, and applied minor changes to each one so that they are more relevant to the needs of cities. In order to address these points we suggest reducing the description of the SOs (which is largely replicated from other PAs anyway) and focus more on describing the framework and principles for SUD in England and the manner in which this will help to deliver integrated strategies which add value in the localities in which they operate.
- liv. The key difference between actions funded through SUD and those funded through other priority axes is that it needs to be shown that they are being delivered as part of an integrated strategy for an urban area. This does not come across in the current draft. The Priority Axis should provide a more detailed introduction to SUDs and ensure that integration and complementarity are embedded in the guiding principles for each of the specific objectives.
- lv. The other key action is to ensure that all of the result indicators are measurable at the level of cities and that the baseline data and result targets are relevant to the cities themselves, rather than England (as a number will not currently be measurable at this spatial scale). The current result indicators have simply been copied from the priority axes for England.

## The Performance Framework

- lvi. We have not yet been able to provide a comprehensive analysis of the output and results indicators and targets, nor the performance framework. This is due to gaps in this information in the OP (eg financial allocation by IP/SO) and the absence of information on the methodology for determining some of these targets. Our conclusions are therefore interim in their nature.
- lvii. We have a number of concerns that the emerging framework will be complex, difficult to manage and time-consuming to report on. This is in large part due to the large numbers of separate PAs and Investment Priorities/Specific Objectives in a Programme which includes, apart for SO7, all three categories of area. As CLG have opted to take this approach, they now need to be very mindful of this challenge in designing their monitoring and evaluation framework and the testing of its suitability and robustness.
- lviii. In terms of the results indicators and targets which have been set, the key points which need to be considered are:
  - The results indicators for all PAs (except PA7 and PA8) will need to be stress tested to see if they can be robustly measured and tracked at the level of the category of region (which obviously implies all MDAs, all TAs and the LDA) in England.
  - Result indicators chosen for PA1 to PA3 are in most cases logical and link back to the interventions, however in the case of PA3 it is highly unlikely that there would any discernible impact from ERDF on the selected indicators.

- There is a lack of any result indicators related to SME finance which, given the importance of this type of intervention to the programme, is a significant omission (although this is a challenging intervention to measure with a result indicator).
  - The results indicators for PA4 are not currently well developed and a number are either not suitable or have limited measurability (due to being based on what one off surveys where there is not necessarily a commitment to repeat the exercise).
  - The result indicators for PA5 are a confused mixture as other elements have been added to the 10-year discounted GVA return from investment in flood management.
  - No results indicators for PA6 have yet been provided.
  - PA7 and PA8 include result indicators that are in effect the transport consequences (speed, congestion or traffic activity) of specific investments - in the absence of knowing what these investments are, it will be difficult to develop meaningful baselines and target values.
- lix. Whilst the majority of the output indicators are judged to be appropriate, the suitability of a number needs to be reconsidered and ideally replaced with more suitable measures. A number of suggestions have also been made for more suitable indicators for inclusion in the performance framework.

## Financial Plan and Allocations

- ix. The current draft of the Operational Programme includes financial allocations by Thematic Objectives and category of region, although not yet by investment priority or by category of expenditure. Our comments are therefore limited at this stage.
- lxi. An important part of the EC's strategy for ERDF in the new programming period is the requirement for concentration of ERDF resource in thematic objectives 1-4 set out in Article 4 of the ERDF regulation and specifically in thematic objective 4. Our analysis of the financial proposals suggests these are met for the three categories of region and for England as a whole.
- lxii. The financial allocations by TO/PA have actually been built up on the basis of the allocations to the 39 LEPs<sup>6</sup>, their Structural and Investment Fund plans, and a process of negotiation between government and the LEPs. The clear and important advantage of the approach is that the financial allocation for the OP closely reflects the perceived needs and opportunities locally. We have discussed the merits of the approach with CLG and they are clearly of the view that the approach is appropriate given their approach to implementation through the LEPs and that it provides important benefits in addressing local economic development needs and opportunities.
- lxiii. However, we have a number of observations on this approach and the associated risks:
- While the OP generally meets the specific requirements of thematic concentration, there is a risk that it does not adequately comply with the broader intention of thematic concentration around TOs 5-10 (i.e. the objectives which do not have specific allocation thresholds) and the added value that this can bring to the use of limited ERDF resource (as set out in Article 18 of CPR). In practice there is a

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<sup>6</sup> There were 39 LEPs before the merger of Northamptonshire LEP and South East Midlands LEP in March 2017.

balance between CLG's view that this approach enables a closer tailoring of a broader range of interventions to local needs and the potential for impacts and added value at a programme level to be reduced.

- There is a danger that this approach does not reflect the economic development needs and opportunities at an England or pan-LEP basis. As noted earlier, the socio-economic evidence in Section One of the OP is not currently presented in a way which provides a strong justification for the financial allocation between PAs/TOs and the IPs within these.

ixiv. Our specific observations are that:

- Given the importance of research and innovation in driving economic growth and productivity in better performing areas, the allocation to PA1 appears relatively low (especially in the transitional areas). However, we recognise that this is a matter of judgement which reflects a variety of factors (needs and opportunities, absorptive capacity, etc).
- The allocation to PA3 (SME Competitiveness) in Cornwall and the Scilly Isles, the only less developed area in the programme, is relatively high given the need for thematic concentration in this TO, in particular the proposed allocation to SME finance (c. £60m). It will be challenging to absorb this level of funding given the nature of the business base (subject to the potential to absorb a significant amount in capital investment such as incubators and of course the supporting evidence to justify this).
- Relatively small allocations are proposed for PA5 (climate change), PA6 (environmental protection) and PA7 and PA8 (transport). Many but not all of the 39 LEPs<sup>7</sup> are proposing to make (often modest) investments under these priorities and the challenge will be to make sure they add real value to their economic development strategies and deliver value for money for the programme as a whole. There will be a need to ensure that project selection procedures and the sharing of lessons on the most effective interventions can maximise impact and added value.

## Management, Monitoring and Evaluation

ixv. The ex-ante evaluation needs to consider the adequacy of the involvement of partners in developing the new programmes. The OP provides a fairly extensive account of the consultation on the use of ERDF through the LEPs and the broad outline of the associated delivery arrangements. It could perhaps be made more explicit that whilst there has not really been an opportunity to consult at national level on the basis of a full draft OP, it is CLG's view that this has not been deemed necessary as it has been constructed 'bottom up' from the LEP submissions.

ixvi. Although there is merit in this argument, it should be borne in mind that some national and local stakeholders which are traditionally involved in delivering ERDF (and ESF), have not been central to the development of the LEP strategies (e.g. the voluntary sector and higher education sector). Our own consultations with partners highlight the concerns which some of these organisations have voiced about the lack of opportunity to be formerly consulted on the basis of a full OP document. CLG need to take steps to ensure that these partners are engaged and some of this activity has already been taking place.

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<sup>7</sup> There were 39 LEPs before the merger of Northamptonshire LEP and South East Midlands LEP in March 2017.

- lxvii. While the ex-ante evaluators are required to consider the adequacy of human resources and administrative capacity for the management of the OP, the OP template does not provide the opportunity for the Managing Authority to provide evidence on this. Our comments are therefore based on the available information in the OP, supplemented by additional information where it is available.
- lxviii. The proposal within the OP is that the overall arrangements in terms of the Managing Authority, Certifying Authority, Audit Authority and the Payments Body should be unchanged and therefore there is reason to believe that the experiences and lessons from the current Programmes can be built on.
- lxix. CLG of course has long experience as a Managing Authority. However, it did incur an error rate in excess of 2% in the earlier part of the current ERDF programme (the rate above which financial penalties are incurred). It has subsequently put in place a range of measures to bring the error rate below 2% for the current programmes, as well as completing a review of their management and business systems for the 2007-13 programme in 2013 in order to identify lessons to be acted upon for the new programme. The lessons are, in the opinion of the evaluators, sensible and many of them have clearly been incorporated into the design of the new business process. CLG intend to test their whole business process prior to implementation.
- lxx. The OP provides a reasonably clear and coherent statement of the proposed arrangements for the delivery of the programme. However, the issues identified include:
- The need for more specific detail about the roles and responsibilities of the LEPs in the management of the new programme, including their roles in determining project selection criteria, the nature and timing of calls for projects, and the selection and approval of these projects.
  - An indication of the measures which should be put in place to help them overcome any weaknesses in the skills, experience and capacity of some of the LEPs to implement ERDF.
  - The chapter should clearly state the basis on which members of the PMC will be appointed.
  - The rationale for the choice of thematic sub-committees is not really clear, given that they appear to cover most but not all of the Thematic Objectives (e.g. TO2, 5, 6 and 7 are not obviously covered).
  - The need to provide information on the management arrangements for the Sustainable Urban Development (SUD) Priority Axis in London, for which the Greater London Authority will be acting as an Intermediate Body.
- lxxi. In terms of the measures planned to reduce the administrative burden on beneficiaries, the relevant sections of the OP have been considered during the final iteration of the ex-ante evaluation. CLG has already integrated and standardised many of its business processes for the current ERDF programme. This now follows a national set of standardised systems and processes for England.
- lxxii. Chapter 10 provides a discussion of the feedback from beneficiaries on the operation of the current programme, although it is not clear what the source or weight of this evidence is. It also notes the desire on the part of partners for the MA to develop a more



streamlined business process<sup>8</sup>. The OP chapter also sets out a number of underpinning principles which CLG is intending to adopt. Whilst the discussion in the OP is helpful, it provides little of the detail which is required to fully judge the nature or appropriateness of the proposed actions, as well as the ability to achieve these. However, our initial exploration of these principles suggests they are underpinned by specific and appropriate actions, including helping to address the Commission's e-cohesion agenda.

- lxxiii. We have not been able to review the monitoring and evaluation plan for the OP as this has not yet been provided to the ex-ante evaluators.

## SEA and the Sustainable Development Principles

- lxxiv. A variety of mainly positive significant effects were identified from individual Thematic Objectives within the ERDF Operational Programme, as detailed in the SEA Report. Many of the activities in the ERDF Operational Programme are unlikely to have direct effects on the environment, given that they deal with matters such as information technology, research and innovation, training and up-skilling of the workforce.
- lxxv. However, the ERDF Operational Programme has the potential for some, mainly indirect, negative effects on the environment, largely related to its support for economic growth and the additional built development and transport movements that are likely to result from this. At the same time, its objectives and investment priorities support a variety of actions that should help to decouple greenhouse gas emissions and resource use from growth and mitigate other environmental impacts associated with economic activity.
- lxxvi. Many of the potential negative environmental effects are judged to be minor in scale because of the safeguards that should operate when individual projects are proposed. These safeguards are assumed to be operated by those bodies responsible for governing the ERDF Operational Programme and for selecting projects for funding, in line with the requirements of the Programme's Horizontal Principles of Sustainable Development and Equal Opportunities and Non-Discrimination. In addition, where physical development is supported, environmental effects should be assessed and avoided, reduced or offset through England's applicable project-specific assessment, consenting and regulatory processes.
- lxxvii. In addition to the effects of individual Thematic Objectives, cumulative effects also arise through the action of multiple Thematic Objectives on a single environmental topic. These effects are, in some cases, further mitigated or enhanced by the requirements that the ERDF Operational Programme's 'Horizontal Principles', including that of Sustainable Development, place on projects that may come forward to deliver the Thematic Objectives. The effects of the Sustainable Development Horizontal Principle have been considered in this context and are outlined in section 10 and the full SEA report. A number of recommendations have been made to strengthen the horizontal principles.

## Equality Assessment and the Equality Principles

- lxxviii. The 2014-20 ERDF Operational Programme is directed towards improving economic competitiveness (an area in which many social and demographic groups experience

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<sup>8</sup> Addressing five main areas: clear roles and responsibilities for managers and partners, an alignment of the business process across funds, the use of standard documentation where possible, clear and unequivocal guidance, and better access to information.

barriers) through research and innovation; improved business support; IT, transport and infrastructure; and sustainability measures. While many of the priorities, objectives and activities within the Programme will not provide explicit benefits in terms of equality, effects are highly likely to be positive overall. Similarly, it is highly unlikely that there will be any disproportionately negative effects on any of the characteristics protected by the Equality Act 2010 – this is a Programme of positive investment in an area of market failure and is to be expected.

- lxxix. It is, however, equally likely that, without appropriate focus and targeting of resources at particular social and demographic groups (including the young, the old, disabled people, people from some BAME and religious groups, LGB people, and trans people), there is a risk of missed opportunities to maximise equality. This is particularly the case for those characteristics for which there is an absence of readily available information or less well developed networks to help in the targeting of ERDF-funded activity.
- lxxx. Overall, equality has been reasonably well integrated into the wider ERDF Operational Programme document, primarily via the 'Equal Opportunities' cross-cutting principle. There is some evidence of gaps and a number of Priority Axes make no substantive mention of issues relating to equality beyond outline reference to the cross-cutting principle. This suggests a lack of integration in practice but is partially explained by a lack of overlap between the content of the Programme document and the equality agenda, but in some cases the need to consider equality appears to be more of an additional consideration than a fundamental principle of Programme design.
- lxxxi. The Programme is reasonably well-positioned to contribute to the achievement of European and UK equality ambitions. It presents a number of opportunities to support the general aim of the PSED to promote equality of opportunity between different sections of society. While some of the Priority Axes will contribute very little to the achievement of equality ambitions in England, this is not considered to be an issue and the programme is not specifically targeted in this way. It falls on the ERDF team to maximise the benefits to different sections of society through design and delivery, whilst preventing unnecessary barriers to accessing the fund.
- lxxxii. Based on the findings of the EIA, the following recommendations have been made for the implementation of the Programme:
- To deliver tailored provision of actions for protected characteristic groups, through raising awareness amongst project sponsors and delivery teams and directly addressing barriers as part of project implementation.
  - To support Programme delivery organisations to draw on the untapped potential of particular groups, particularly around innovation, research and development and enterprise – areas in which groups face barriers to entry, limiting the wider potential social and economic benefits they could contribute.
  - To develop a communication strategy that includes guidance on equality and is targeted at those groups least likely to access the programme with comparative ease. Measures addressing language, disability and communication method should all be considered.

# 1. Introduction

## Objectives of the Ex-ante Evaluation

- 1.1 Regeneris Consulting, in conjunction with Land Use Consultants, Mott MacDonald and Old Bell3, was commissioned by the CLG in October 2013 to undertake the ex-ante evaluation of the English European Regional Development Fund (ERDF) programme, which is due to be invested during the period 2014- 20. The ERDF is one of the European Structural Investment Funds, with also the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD), the European Maritime and Fisheries Fund (EMFF) and the Cohesion Fund.
- 1.2 This report is only concerned with the ex-ante evaluation of the ERDF Operational Programme (OP) for England. The programme is intended to cover all of the European Commission's categories of regions within England, namely Less Developed, Transitional and More Developed regions.
- 1.3 An ex-ante evaluation is required by European legislation as part of the process of developing Operational Programmes, which provides the basis for the utilisation of ESI Funds. The formal requirements for ex-ante evaluation are laid down in Article 55 of the Common Provisions Regulation which, in summary, requires such evaluations to appraise:
  - (a) The contribution of the OP to the EU's 2020 strategy for smart, sustainable and inclusive growth
  - (b) The internal coherence of the OP and its relation with other relevant policies and programmes
  - (c) The consistency of the allocation of budgetary resources with the objectives of the programme
  - (d) The consistency of the interventions envisaged with the EU's Common Strategic Framework for the ESI Funds and the Partnership Agreement between the UK and the EU
  - (e) The relevance and clarity of indicators proposed to measure outputs and results
  - (f) How the expected outputs will contribute to results
  - (g) Whether the target values for indicators are realistic
  - (h) The rationale for the form of support proposed
  - (i) The adequacy of human resources and administrative capacity for management of the Programme
  - (j) The suitability of the procedures for monitoring and evaluating the Programme
  - (k) The suitability of the milestones selected for the performance framework
  - (l) The adequacy of planned measures to promote equal opportunities between men and women and to prevent discrimination
  - (m) The adequacy of planned measures to promote sustainable development
  - (n) The adequacy of measures planned to reduce the administrative burden of beneficiaries.

- 1.4 The Regulation also requires the ex-ante evaluation to incorporate the requirements for the Strategic Environmental Assessment (SEA) Directive<sup>9</sup>, which requires the assessment of the potential impact of the ERDF programme on the environment. Following consultations with the statutory consultees for SEA, it was concluded that a Habitats Regulations Assessment<sup>10</sup> was not required.
- 1.5 The ex-ante evaluation is intended to be an iterative process which enables the CLG led programme drafting team to improve the programme, rather than just being a critique of it. This was intended to involve a number of strands of our work:
- Reviewing and commenting on the consecutive drafts of the operational programme - this process was planned to occur on three separate occasions, but due to the nature of the OP drafting process has only taken place towards the end of the drafting period (June and July 2014).
  - On-going reviews of the evidence base and intervention logic chains – we have reviewed the evidence base and intervention logics for the priority axis on an on-going basis.
- 1.6 Our comments and advice have generally been given serious consideration and in many cases led to changes and a strengthening of the approach, which have now been reflected in the OP [which in due will be ready for submission to the European Commission]. However, as reflected in the tone and substance of our comments which follow in later chapters, the drafting team have not yet been able to address all of our comments.
- 1.7 The ability of the ex-ante evaluators has been hampered by the delays on the part of CLG in preparing a complete draft of the OP. This has included significant changes being made to the programme strategy and the filling of gaps in the necessary information to fulfil the regulations close the deadline for submission of the OP to the EC.
- 1.8 This report is therefore primarily an account of the process followed, the main issues raised by the evaluators and the extent to which these have been addressed in the latest draft OP (7<sup>th</sup> July draft) and a discussion of the remaining areas where the evaluation team believe action needs to be undertaken. While the evaluation process has involved the appraisal of all those elements required by Article 55, the report itself is not intended as a comprehensive appraisal of all of these issues.

## Approach and Methodology

- 1.9 The main elements of the work undertaken by the team have been:

### TASKS

- An initial inception meeting with the ex-ante evaluation steering group, which comprised CLG's OP drafting team and representatives of BIS, and led to the production of an Inception Report (October 2013).
- An initial review and critique of the socio-economic analysis and the initial set of investment priorities (October 2013).

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<sup>9</sup> Directive 2001/42/EC of the European Parliament and of the Council of 27 June 2001

<sup>10</sup> Council Directive 92/43/EEC on the Conservation of natural habitats and of wild fauna and flora

- The production of a series of internal papers relating to the proposed Priority Axes, covering the relevant policy context (including the relevance to Europe 2020 strategy and targets, as well as current UK and England policy frameworks), evidence relating to current challenges in and across England, and evaluation evidence on the effectiveness and lessons in tackling these challenges. This evidence was intended for internal use and were not shared with CLG (October and November 2013).
- A first interim ex-ante evaluation report which focused on the draft OP document as it stood at the end of November 2013. At that stage, the draft OP mainly consisted of drafts of chapters one and two, covering the strategy for the operational programme and the priority investment strategy respectively. It was reviewed alongside an earlier version of the England chapter of the UK Partnership Agreement.
- Attendance at the Growth Programme Board and undertaking consultations with many members of this group to test the extent to which the development of the OP was underpinned by a partnership based approach (autumn 2013).
- On-going consultations with the staff directly involved in drafting the OP (autumn 2013) and the thematic leads in partner organisations involved in drafting the intervention logics (ILs).
- Attending workshops focused on the review and refinement of the intervention logics for each priority axis, as well as providing ongoing informal feedback on drafts of these ILs.
- Undertaking a Screening Report in accordance with the SEA Directive, which concluded that a full Environmental Report was required in relation to the ERDF OP (December 2013).
- Participating in a series of consultation events held in London (May 2014) and undertaking an analysis of the responses received to the consultation documents for the ERDF programme which were issued shortly afterwards.

## REPORTS

- Undertaking an ex-ante assessment of the case for using Financial Instruments (FI) in the delivery of four main areas of the OP (with the report being completed in June 2014).
- A technical note setting out indicative unit costs for different types of outputs, based on monitoring evidence from the current ERDF programmes in England (January 2014).
- Preparing a draft Strategic Environmental Assessment (SEA) Report as the basis for public consultation (June 2014), on the basis of the version of the OP available at the time (mid-May 2014).
- Developing a draft Equality Assessment (EqA) for the OP (end June 2014).
- Preparing the first full draft of the ex-ante evaluation report (27<sup>th</sup> June 2014), although this was based on a version of the OP which had gaps in the information contained within it (eg some of the result baselines and targets, output targets and milestones, financial allocation by investment priority).
- Updating of the draft ex-ante evaluation report on the basis of a revised OP (version 10, 14<sup>th</sup> July 2014).

1.10 While the process has been extensive and has been underpinned by good co-operation between the ex-ante evaluation team and key officials in CLG, there have been a series of constraints:

- The intention was to review drafts of the OP (see paragraph 1.5 bullet point one above), using a comments log and annotation of the draft document. This process was intended to ensure an effective audit trail of our comments and the response of the OP drafting team. However, in practice the process has not been able to work in this way, due to the substantial delays in the preparation of complete or near complete drafts of the OP.
- These delays are in part due to the challenges which CLG have faced in preparing logic chains which are fit for purpose. The drafting team has sought much more support in the refinement of the investment strategy and underpinning intervention logic chains than we anticipated.

## Structure of the Report

1.11 The following sections of the report cover:

- Section 2 – an overview of the Operational Programme
- Section 3 – a review of the evidence base and the socio-economic analysis
- Section 4 – an outline of the overall Programme Strategy, including the extent to which it flows from the socio-economic analysis and its fit with Europe 2020 and the Common Strategic Framework
- Section 5 – an analysis of the consistency and coherence of programme priorities
- Section 6 – a review of the adequacy and appropriateness of the indicators and targets
- Section 7 – the analysis of the justification of the proposed financial allocations
- Section 8 - the adequacy of the administrative arrangements, as well as the proposed approach to monitoring and evaluation
- Section 9 - the extent to which the horizontal principle (or Cross-Cutting Theme) of equal opportunities has been taken into account in preparing the OP including a summary of the findings of the EqA
- Section 10 - the extent to which the horizontal principle (or Cross-Cutting Theme) of sustainable development has been taken into account in preparing the OP and the potential environmental impact of the OP drawing on the draft SEA.

## 2. The Operational Programme

- 2.1 Operational Programmes are the formal documents through which a Member State sets out its proposals for using part or all of the ESI Funds within its territory. Once agreed with the European Commission, they form the legal basis on which money is drawn down from the EU. The EU's requirements in terms of the content of Operational Programmes are laid down in legislation, and for the 2014 – 2020 Programmes, the European Commission has provided a template with strict word limits.
- 2.2 For the 2014-20 period, the regulations state that:
- All interventions supported by the ESI Funds must relate to one of the 11 Thematic Objectives established by legislation and to one of the 37 Investment Priorities which are sub-divisions of the Thematic Objectives
  - Operational Programmes must consist of one or more Priority Axes, which (with the exception of Technical Assistance) should align to one or possibly more of the EU's Investment Priorities
  - Where a Priority Axis includes several Investment Priorities, the OP must set out a separate financial allocation and a separate set of output and result indicators for each
  - Each Priority Axis should also state one or more Specific Objectives which express the Member State's own policy intention of the interventions they will fund (with ideally a specific objective relating clearly to the ERDF Investment Priority in question).
- 2.3 HM Government have decided to have just a single ERDF programme for England, incorporating Less Developed Areas (LDA), Transitional Areas (TA) and More Developed Areas (MDA). England includes multiple MDAs and TAs, but only one LDA namely Cornwall and the Scilly Isles.
- 2.4 Within the legal framework of the Regulations, the decision about the manner in which ERDF funding is organised to address the needs and opportunities of these different categories of region reflects a variety of factors including the number and composition of these areas within the overall administrative area (England in this instance), the nature of their socio-economic challenges across these areas, the scale of the available ERDF resource across them, as well as the practicalities of different approaches for the management of the fund.
- 2.5 The OP notes in several places HM Government's intention of combining the three categories of region in a single programme. The argument for this approach in most priority axes is that it will enable:
- A more coherent approach to be adopted, including collaborative actions across the different categories of region
  - Partners to make investment choices that will ensure that ERDF is targeted at the challenges of highest priority and potential across specific territories at the most appropriate spatial level

- The development needs are as varied within as across categories of region (certainly for TAs and MDAs).
- 2.6 Whilst this may well be the case, it is not readily apparent how far this form of coherence and collaboration is important or likely to arise, given the bottom up approach to delivering the programme through thirty nine Local Enterprise Partnerships (LEPs). This aspect of the OP needs to be strengthened, through identifying more clearly where it is seen to be important and the steps which are being taken to encourage joint working and implementation at higher spatial scale where this is appropriate.
- 2.7 The Priority Axes and the Specific Objectives for the England ERDF OP are set out in Table 2.1, showing the relationship with the ERDF programme's Thematic Objectives and the Investment Priorities set out in the legislation and the proposed financial allocation in terms of ERDF funding.
- 2.8 A number of specific objectives relate to multiple investment priorities. Whilst it is not mandatory for a SO to relate only to one IP, this is the implication of the Regulations and the guidance on templates e.g. Article 96 of the CPR refers to 'the investment priorities and corresponding specific objectives'.
- 2.9 We note in a number of places in the review of the priority axes that a number of the SOs are vague and ambiguous, which is not consistent with intentions of the CPR. For example:
- PA2/SO1 'Increase growth capability of SMEs' – this targets two targets in terms of all SMEs and also high growth SMEs, as well as mixing two different types of outcomes namely general growth capability of SMEs with the actual number of high growth firms.
  - PA9/SO2 'Reduced risk of poverty and social exclusion through improved access to economic growth and development opportunities' – the causes and consequences of poverty and social exclusion are complicated and wide ranging, many of which are well beyond the scope of the ERDF. The SO doesn't make clear which particular cause(s) of poverty it is focusing on.
- 2.10 We have provided on-going advice to CLG concerning the structure of the ERDF programme. Whilst it is consistent with the regulations, we believe that it raises a number of potential risks (which are explored in more detail below):
- The programme structure consists of a large number of priority axes, investment priorities and specific objectives, a number of which have fairly small allocations of ERDF. There is a significant risk that these parts of the programme add little value overall to the programme due to a lack of scale and integration. CLG needs to more clearly the added value of including TOs will relatively modest allocations and the steps which will help to ensure they add genuine value to the programme as a whole.
  - Although aspects of the programme strategy do clearly distinguish and address the needs and opportunities of different categories of region, there is a risk that the programme is not sufficiently tailored to the different categories of region. As noted in paragraph ix above, CLG needs to provide further information on how the OP will achieve this where it is appropriate.
  - It will be challenging to manage a programme with a complex structure and associated performance framework (i.e. a single programme cover the three categories of region, ten priority axes and eighteen investment priorities). If it is to pursue this structure, CLG needs to ensure that the design and implementation of the



monitoring and evaluation framework is able to satisfactorily accommodate this additional complexity.

Table 2.1 Priority Axes of the England ERDF Operational Programme

Priority Axis and Specific Objectives (SO)	Selected thematic objective	Selected Investment Priority	Proposed ERDF Funding £m
Priority Axis One: Research and Innovation			
SO1: Increase the number of SMEs innovating to bring new products and processes to the market	TO1: Strengthening research, technological development & innovation	1b Promoting business investment in R&I; developing links and synergies between enterprises, research and development centres and the higher education sector; promoting investment in product and service development, technology transfer, social innovation, eco-innovation, public service applications, demand stimulation, networking, clusters and open innovation through smart specialisation; and supporting technological and applied research, pilot lines, early product validation actions, advanced manufacturing capabilities and first production, in particular in key enabling technologies and diffusion of general purpose technologies	£609.7
SO2: Increase collaborative research and innovation between large enterprises, research institutions and public institutions to improve SME commercialisation			
Priority Axis Two: Enhancing Access to, and Use and Quality of, ICT			
SO1: Increase the coverage and take up of superfast and ultrafast broadband in areas where the market is failing, particularly where this is creating a barrier to SME growth	TO2: Enhancing access to, and use and quality of, ICT	2a Extending broadband deployment and the roll-out of high-speed networks and supporting the adoption of emerging technologies and networks for the digital economy	£108.8
SO2: Increase the number of SMEs using and having access to digital technologies including trading on line.		2b Developing ICT products and services, e-commerce, and enhancing demand for ICT	
Priority Axis Three: Enhancing the Competitiveness of SMEs			
SO1: Increase growth capacity of SMEs	TO3: Enhancing the Competitiveness of SMEs	3c Supporting the creation and the extension of advanced capacities for product and service development	£1,207.1
SO2: Increase growth capability of SMEs		3d Supporting the capacity of SMEs to grow in regional, national and international markets, and to engage in innovation processes	

Priority Axis and Specific Objectives (SO)	Selected thematic objective	Selected Investment Priority	Proposed ERDF Funding £m
SO3: Increase entrepreneurship, particularly in areas with low levels of enterprise activity and amongst under-represented groups		3a Promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms, including through business incubators	
Priority Axis Four: Supporting the Shift Towards a Low Carbon Economy in all Sectors			
SO1: Increase innovation in, and adoption of, low carbon technologies	TO4: Supporting the shift towards a low carbon economy in all sectors	4f Promoting research and innovation in, and adoption of, low-carbon technologies	£547.0
SO2: Increase implementation of whole place low carbon solutions and decentralised energy measures		4a Promoting the production and distribution of energy derived from renewable sources	
SO3: Increase energy efficiency and implementation of low carbon technologies in all types of enterprise		4e Promoting low-carbon strategies for all types of territories, in particular for urban areas, including the promotion of sustainable multimodal urban mobility and mitigation-relevant adaptation measures	
SO4: Increase energy efficiency and implementation of low carbon technologies		4b Promoting energy efficiency and renewable energy use in enterprises	
		4c Supporting energy efficiency, smart energy management and renewable energy use in public infrastructure, including in public buildings, and in the housing sector	
Priority Axis Five: Promoting Climate Change Adaption, Risk Prevention and Management			
SO1: Enabling and protecting economic development potential through investment in flood and coastal flooding management where there is demonstrable market failure	TO5: Promoting climate change adaptation, risk prevention and management	Enabling and protecting economic development potential through investment in flood and coastal flooding management where there is demonstrable market failure	£73.3
Priority Axis Six: Preserving and Protecting the Environment and Promoting Resource Efficiency			
SO1: Investments in green and blue infrastructure and actions that support the provision of ecosystem services on which businesses and communities depend to increase local natural capital and support sustainable economic growth	TO6: Preserving and protecting the environment and promoting resource efficiency	6d Protecting and restoring biodiversity and soil and promoting ecosystems, including through Natura 2000 and green infrastructure	£88.0

Priority Axis and Specific Objectives (SO)	Selected thematic objective	Selected Investment Priority	Proposed ERDF Funding £m
SO2: Investment in the uptake of innovative technologies and resource efficiency measures to increase environmental protection, resilience and performance of businesses and communities		6f Promoting innovative technologies to improve environmental protection and resource efficiency in the waste sector, water sector and with regard to soil, or to reduce air pollution.	
Priority Axis Seven: Sustainable Transport In Cornwall and the Isles of Scilly			
SO1: Improve the accessibility of Cornwall and the Isles of Scilly by enhancing integration with the TEN-T road and rail network	TO7: Promoting sustainable transport and removing bottlenecks in key network infrastructures	7a Supporting a multimodal Single European Transport Area by investing in the Trans European Transport Networks	£40.0
SO3: Improve connectivity within Cornwall and the Isles of Scilly through developing sustainable means of transport		7c Developing and improving environmentally-friendly (including low-noise) and low-carbon transport systems, including inland waterways and maritime transport, ports, multimodal links and airport infrastructure, in order to promote sustainable regional and local mobility	
Priority Axis Eight: Sustainable Transport			
SO1: Improving regional mobility and the economic viability of areas by linking them to the TEN-T network with transport infrastructure	TO7: Promoting sustainable transport and removing bottlenecks in key network infrastructures	7b Enhancing regional mobility by connecting secondary and tertiary nodes to Trans European Transport Networks infrastructure, including multimodal nodes	£21.0
SO2: To remove pressure from road network by promoting other forms of transport that support sustainable development, jobs and growth		7c Developing and improving environmentally-friendly (including low-noise) and low-carbon transport systems, including inland waterways and maritime transport, ports, multimodal links and airport infrastructure, in order to promote sustainable regional and local mobility	
Priority Axis Nine: Promoting Social Inclusion and Combating Poverty and Any Discrimination			
SO1: To build capacity and mobilise resources at community level that overcome persistent barriers to growth and employment in lagging areas or deprived communities	TO9: Promoting social inclusion, combating poverty and any discrimination	9d Undertaking investment in the context of community led local development strategies	£41.5
SO2: Reduced risk of poverty and social exclusion through improved access to economic growth and development opportunities			
Priority Axis Ten: Sustainable Urban Development			£245.2

Priority Axis and Specific Objectives (SO)	Selected thematic objective	Selected Investment Priority	Proposed ERDF Funding £m
London			
Covers multiple specific objectives, the structure and focus closely mirroring that of the other priority axes			
Priority Axis Eleven: Technical Assistance			
SO1: To ensure that the activities which fall within the scope of the programme are managed, monitored and evaluated in line with the common provisions regulation, ERDF regulation and the commission's delegated and implementing regulations			£124.2
SO2: To facilitate access to the programme and communicate the impact that the European Structural and Investment Funds have, including by providing robust governance support to the PMC and sub-committees and high quality advice and information to partners involved in the design and delivery of projects			
Total			£3,105.7

### 3. Evidence Base and the Socio-economic Analysis

There are no specific ex-ante evaluation requirements of the socio-economic analysis, although this section considers the following:

- The appropriateness of the evidence which has been accessed
- Whether sound conclusions have been drawn concerning the development needs and opportunities for the programme at relevant spatial scale and for appropriate thematic areas
- The consistency of the evidence presented in the OP compared to the UK Partnership Agreement.

#### Previous Feedback Provided and the Response

- 3.1 Our previous assessment of the initial drafts of the OP identified a large number of issues. Section 1 of the OP has been substantially redrafted since the earlier draft and the UKPA England chapter has also changed considerably. The UKPA now provides a greater level of relevant analysis that the OP can draw upon.
- 3.2 The key points raised previously are set out in Table 3.1 below with a commentary on how far they have been addressed in the current draft of the OP.

Table 3.1 Feedback and Response for Socio-Economic Analysis in Section 2

Feedback provided prior to OP Draft dated 18th June, 2014	
Feedback	Response in Current OP
There is a lack of logic running from the limited socio-economic analysis into the implications for ERDF.	This is much better addressed. The analysis focusses on issues and matters that are relevant to ERDF
The scope of the "big issues" chosen in the sections on economic and social cohesion appear arbitrary and need revisiting.	Addressed as the first part of the section does not really focus on "big issues" anymore, these are largely focussed on TOs
There is no recognition of the spatial impact of the reductions in government expenditure and so regional/local economic challenges highlighted by this.	This remains the case and has not been addressed.
There is no systematic analysis of the different conditions between MDAs, TAs and LDAs, or the different types of LEPs. So for instance rates of innovation, enterprise and productivity vary widely.	There is much more analysis globally (pages 5 to 17) and in some of the TO parts of Section 1. There is also some useful analysis on the England chapter of the UKPA. However, this does not cover differences between MDAs, TAs and LDAs
The treatment of spatial disparities in the analysis is not consistent. Both the LEP typology and the three categories of ERDF region should be used (as well as recognition of the difference within type of areas).	The spatial analysis remains inconsistent and there is a continuing lack of analysis of MDAs, TAs and LDA base conditions. Some of the analysis is too detailed to discern patterns and lacks benchmarks.
The socio-economic analysis does not inform the relative balance between TOs.	This largely remains the case, at present there is very limited explicit justification of the balance between TOs drawing on the material in sections 1.1.1 and 1.1.2
The links from the elements of the socio-economic analysis to the subsequent choice of TOs and types of intervention are not made strongly at present.	This is much better addressed, by and large the analysis within each TO does provide logical "hooks" for ERDF interventions (although not on the relative balance of investment)
Need to consider how to cross reference to material	Much better addressed.

and analysis in the UKPA to avoid duplication.	
DCLG need to consider the link between the socio-economic analysis and the development of future results targets, as the baseline could potentially be in part in this section.	<u>This is much better addressed</u> and there are explicit links made at the end of each TO section.
Socio-Economic Analysis– feedback provided in response to OP Draft dated 18th June, 2014	
Feedback	Response in Current OP
The analysis does not fully bring out the reasons for recent and long term changes in spatial disparities across England	There is more analysis on the factors driving spatial disparities (pages 15-17) which is helpful
The evidence on the efficacy and value of LEPs as the unit for development of responses to economic development challenges is not as simple as suggested	The arguments are pursued in more detail on pages 19 and 20 and there is acknowledgement that LEPs are not always the best spatial scale to organise and deliver interventions. [Although the <u>implications</u> of this conclusions would ideally be explored in each TO section]
The analysis does not bring out fully the extent to which the scale and the type of challenges are very different as between geographies in England	There is a better analysis, especially at a LEP level of key factors
The evidence assessed is not, per se, used to justify the allocation between TOs/Priority Axes	This essentially remains the case and has not been addressed.
The evidence presented on the case for intervention in TO5, TO6 and TO7 is much weaker is not partly compelling in terms of forms of investment or potential levels of investment.	The latest draft has improved the logic and case for investment in these TOs, especially TO5. Large parts of TO6 remain unconvincing.
Most TOs lack a compelling narrative	The latest draft is improved across all TOs
It would be helpful if all TOs sections finished with key conclusions for ERDF investment.	<u>This point is now addressed</u>
Section 1 needs to be clearer why degree of analysis and detail varies across that this is the case and why this is the case before embarking on the TO-level analysis.	<u>This point is now addressed</u>
The assessment does not really address the issue of what types of intervention are more or less efficacious.	This remains the case and has not been addressed.

### Overall Assessment of Current Socio-Economic Analysis

- 3.3 The socio-economic analysis has been developed and improved considerably since the first draft in autumn 2013. It now provides a reasonably coherent justification for the nature of investment planned in the OP within each TO/Priority Axis. The analysis needs to be read in conjunction with the analysis in the UKPA, which is more detailed in relation to key areas such as innovation, energy and climate change. Many of our earlier concerns have been addressed, albeit in a rather piecemeal way. The section is well sourced, provides clear cross referencing to the UKPA and draws on a wide range of relevant statistics and research.

### Overall Comments

- 3.4 Our main overall comments which remain outstanding are set out in above. These can be summarised as:

- 1) Lack of evidence on the potential efficacy and value for money for the types of interventions proposed (as opposed to the market failure, need and policy cases which are generally well made). We recognise that this is difficult for DCLG and the LEPs to address simply because the current evidence base is weak in many areas due to the lack of consistent and robust evaluations in England and indeed generally

across Europe (as far as we are aware) in many of the policy areas relevant to ERDF. The UK Government has recently funded a “What Works” centre that is carrying out systematic reviews of the existing evidence base which should be used to inform LEPs and others as interventions are further developed. We are aware of the body of knowledge and experience about the effectiveness of interventions which exists within CLG and its partners. The OP should make it much clearer how this knowledge base has been used in shaping the investment strategy for the programme. It is also critical that DCLG ensures the gap in robust evidence is plugged in the forthcoming 2014-20 ERDF programme.

- 2) We remain concerned that there is not a fully consistent approach to measuring and assessing spatial differences; in particular the differences between the Less Developed Area, the Transition Areas and the More Developed Areas in England are not properly identified. This applies both to the analysis and the setting of baselines.
- 3) It is also the case that the factors driving spatial disparities in economic performance and the links to ERDF-supported interventions are blurred. We consider that the analysis pulls its punches on the economic dominance of London and its surrounding areas, the long term persistence of this and recent widening of disparities. In a EU context London and the wider South East is a super performing region, yet the industrial areas and more peripheral regions are seriously lagging behind. Clearly in part this is addressed in ERDF terms by the differential allocations per head between the LDA, TA and MDAs and to LEPs. However, there is no sense in which the ERDF programme is combining with other UK Government investment to help to some degree address these widening disparities.
- 4) The evidence used and the analysis carried out is only used in a limited way to provide a coherent justification for the proposed resource allocation across TOs (and, within each TO, between different Investment Priorities). We fully understand the bottom-up nature of resource allocation via the LEPs; however it would provide comfort if the top-down national analysis supported in a broad sense at least the parameters of the resource allocation. For instance the analysis of spatial disparities and TO1 (in the UKPA as well) both point towards the dominance of the Golden Triangle (London/Cambridge/Oxford) in R&D and innovation which is clearly a more important driver of differences in economic performance than flooding (TO5) or blue/green infrastructure (TO6). Yet it is not clear how the ERDF allocated to TO1 will address this relative challenge.
- 5) Overlaps between the UKPA and the analysis in Section 2 on the Priority Axes. This issue is perhaps inevitable, however it would be helpful if DCLG could take stock and either include all analysis at a TO level in Section 1 or just a very high level limited analysis in Section 1 and more detail in Section 2.

## Specific Comments

### SECTION 1.1.1

3.5 The socio-economic analysis (Section 1.1.1) has improved very considerably on the earlier versions and there is a more robust and fuller analysis. However, there still remain a number of specific points (in addition to the wider points raised above):

- 1) Pages 7 and 8:
  - The resilience of the labour market is in large part due to major depression of real wage levels (a particular issue for younger people) and the growth of part time and flexible working (not the choice of many participating in the labour



market). There has also been a marked fall in labour productivity over the period since 2008. These points should be acknowledged at least.

- As requested before please set out the recessionary peak for the England ILO unemployment rate
  - Figure 2 is useful but would help if ranked from low (in 2013) to high left to right and with the averages for England, all TAs and all MDAs shown and of course the Cornwall and Isle of Scilly figures highlighted). We assume it is currently sorted by small to large in terms of percentage points increase in unemployment?
  - Figure 2 also shows that the impact of the recession and reductions in public expenditure have hit most heavily areas outside London and the SE [a theme partly but not fully picked up in the analysis]
  - Need to check the relationship between changes in unemployment and employment rates (page 7): the data presented suggests roughly a 2 percentage point increase in the former but no change in the latter, implying that the economic activity rate has risen. This could be due to difference data sources and definitions but needs to be clarified.
- 2) Page 9, Figure 3. Again a very helpful chart but would be easier to read if ranked low to high. Also please show the average of LDA, TAs and MDAs.
  - 3) Pages 10, Table B is not helpful in its latest version as it shows little. The earlier version was more useful. The outlier position of London is again apparent.
  - 4) Page 14, Table C: as stated before this table is misleading and does not add to the analysis. The “disparities” between inner and outer London are irrelevant and driven by travel to work patterns). If it is to be used then the averages for all LEPs in the category should be shown AND those for MDAs, TAs and LDAs.
  - 5) Page 15 and 16, Table D: comments as per Table C. In addition the text should explain that productivity differences are explained both by labour productivity and total factor productivity (in other words the industrial mix can explain some of the productivity differences).
  - 6) Page 16 the short para on “competing theories” does not seem to be very conclusive, the subsequent analysis focussed on skilled workers, but they in part are determined by patterns of industry and employers.
  - 7) Page 17, Figure 4. A really useful figure; however, as before it needs the England, MDA, TA and LDA areas figures highlighted.
  - 8) Pages 17 and 18. This analysis needs to reach some conclusions on the implications for ERDF. If it’s all about skills then what is the role for ERDF? Is it by trying to stimulate demand for higher skills and so help “thicken” labour markets? Does this mean different strategies are needed in big city and in more rural LEPs?
  - 9) Page 17 the “barriers to attracting investment...” are not per se market failures.
  - 10) Section on Role of LEPs (pages 19 and 20) - this would be aided by a brief assessment of the totality of funding now available to or controlled by LEPs (including the latest Growth Deals).

## SECTION 1.1.2

3.6 This section now provides a logical entry into the justification for TOs and Investment Priorities Each TO concludes very helpfully with implications for ERDF and the results indicators to be used.

3.7 Comments are set out below on each TO in turn:

TO1: Strengthening research, technological development & innovation

3.8 The evidence is well presented and sourced on need and touches on the geographic disparities and specific SME issues, there is good cross referencing to the UKPA. Several specific points raised in earlier drafts have been addressed. The reasons why innovation rates are lower in SMEs are well articulated.

3.9 The following specific points still need addressing:

- Page 21: the data on R&D Tax Credits claimed needs to be put in context (value as % of total turnover for instance).
- Page 21: could the apparent fall in the gap between larger and smaller firm innovation rates be due to survey sample sizes and so margins of error or compositional effect? The data might be better presented in a table also showing the rates for non-SMEs and the average for all businesses.
- Page 23: the figures quoted for HE-SME interaction need to be put in clearer units (£s, £000s or £ms? The numbers should be rounded and contextualised (value of interaction as percentage of turnover for instance). We have some concerns over the reliability of this measure as variations from year to year will be caused by sampling and different responses. This is a potential issue in its use as a result indicator.
- Page 25: implication for ERDF, it should read “currently innovation active”. The current value of collaboration baseline is presumably with SMEs not all firms.

TO2: Enhancing Access to, and Use and Quality of, ICT

3.10 This is also a generally well evidenced TO and most of the earlier specific comments have been addressed. Remaining specific comments include:

- Page 26, Figure 6 (and related text): we assume the final bars are for 2012? We think the correct interpretation is that only 15.9% (10.1% plus 5.8%) of businesses use broadband with speeds over 30 Mbps.
- Page 28, need to be clear if superfast is defined as over 30Mbps?
- P26, online sales are more relevant for some sectors than others and it is hardly surprising that they are not as relevant for small businesses. The text needs to explain that on-line sales are one proxy for use of ICT and a far from perfect one (highly sector dependent).
- Figure 7 is difficult to read and does not seem to be showing any clear trend and indeed offers little added value. We recommend dropping it. Some of the detailed text immediately after the figure adds little value.

TO3: Enhancing the Competitiveness of SMEs

3.11 This section sets out lots of useful evidence and the points on access to finance, accessing international markets and on differences in degrees of entrepreneurialism are well made. This is an area where clarity on the evidence on the most efficacious interventions could be particularly helpful (accepting that the evidence is far from conclusive).

3.12 Remaining specific comments include:

- Page 29: the analysis confuses GVA per employee (which is highly sector specific and relates in part to capital intensity) with productivity and competitiveness.
- Page 30: More could and should be made of the geographic disparities in enterprise and productivity – there is an important narrative which needs to be drawn out and as with Section 1.1.1 it would be helpful to have the statistics quoted for all MDA, TAs and the LDA.
- Page 30: 45% of high growth businesses in just five LEP areas is an interesting statistic and should be developed further in terms of indexing it, looking across all geographies (MDA, TA and LDA) and comparing to share of population, all firms or employment).
- Page 31: the potential for more SMEs to be competitive in expert markets suggested is a very large range. It could also be expressed as percentage of all SMEs. Is there any analysis of the size of sector focus of these SMEs?
- Page 33: see earlier comments about the dangers of using GVA per employee as a proxy for productivity in SMEs.

TO4: Supporting the Shift towards a Low Carbon Economy in all Sectors

3.13 This section presents some important highlights. Remaining specific comments include:

- 1) There is a lack of sector based analysis of the extent there has been a shift or the capacity to make a shift to the low carbon economy
- 2) Page 35: the data quoted for the market in LCGSS is based on evidence that we believe is subject to very wide margins of error due to the inherent challenges in defining the “sector”. Therefore it is not suitable for use as a baseline or to measure results. For instance the values quoted for the sector in England have far too many significant figures. The value of the sector in the four LEPs should be benchmarked against their GVA share.
- 3) Page 34: the significance of the ranges of production generated by renewables is not clear – what areas are the range for and how should the figures be benchmarked (surely per unit of GVA or head of population)?
- 4) Page 35: we have some concerns with these baselines for results, for the indicators proposed the impact of ERDF will be infinitesimal.

TO5: Promoting Climate Change Adaptation, Risk Prevention and Management

3.14 This is more fully dealt with in the UKPA. This draft has a much fuller and well-argued set of evidence. Our specific comments are:

- 1) Page 37: at the lower level £2 of GVA per £1 invested does not suggest good value for money
- 2) Page 38: the last bullet point on implications for ERDF does not make sense (including reference to office space).

TO6: Preserving and protecting the environment and promoting resource efficiency

3.15 This TO is also now much better and fuller developed. However, fundamentally, with the exception of potentially development of brownfield land (still an issue in some

areas with lower development values and where there are potentially externalities from blighting effects) and resource efficiency, the case for investment is not made that strongly.

TO7: Promoting sustainable transport and removing bottlenecks in key network infrastructures

3.16 This section needs to separate evidence on the need for strategic external links and local pinch-points and congestion.

3.17 No compelling case or evidence is presented on the need for these investments.

TO9 Promoting social inclusion and combating poverty

3.18 No comments as no substantive analysis.

#### TABLE 1: SYNTHETIC OVERVIEW

3.19 This is a helpful table that brings out the policy driver and market failure arguments for each proposed investment priority. It does not provide any justification for the relative scale of investment across or within TOs.

#### 1.2 JUSTIFICATION OF THE FINANCIAL ALLOCATIONS

3.20 This is a short section that does not fully do what it says. Very limited justification is given for the split by TO here. Indeed reading the earlier sections 1.1.1 and 1.1.2, a much more cogent and coherent case is made for investment in TO2 that TO5, 6 or 7.

3.21 It would be helpful to show the allocations by the three types of area per capita and also per £ of GVA. (There was such a table in the earlier draft last autumn).

## Conclusions

3.22 The socio-economic analysis contained in the OP needs to be read in conjunction with the UKPA, which contains more detailed analysis of a number of themes in particular. The analysis has been developed and improved considerably since the first draft in autumn 2013. The section is well sourced and draws on a wide range of statistics and research. It now provides a reasonably coherent justification for the nature of investment planned in the OP within each TO/Priority Axis. Many of our earlier concerns have been addressed, albeit in a rather piecemeal way.

3.23 Our main overall comments which remain outstanding are:

- Lack of evidence on the potential efficacy and value for money for the types of interventions proposed (as opposed to the market failure, need and policy cases which are generally well made), although we appreciate the evidence base upon which to draw is weak in terms of its consistency and robustness. However, greater use of the available evidence and knowledge can be made by CLG in demonstrating how this has shaped the investment strategy.
- We remain concerned that there is not a fully consistent approach to measuring and assessing spatial differences, in particular the differences between the Less Developed Area, the Transition areas and the More Developed Areas in England is not properly identified.
- It is also the case that the factors driving spatial disparities in economic performance and the links to ERDF supported interventions are blurred.

- The evidence used and the analysis carried out is only used in a limited way to provide a coherent justification for the proposed resource allocation across TOs (and, within each TO, between different Investment Priorities).

## 4. The Programme Strategy

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The section sets out to address the following specific ex-ante evaluation questions:

- The contribution of the OP to the EU's 2020 strategy for smart, sustainable and inclusive growth
  - The overall internal coherence of the OP and its relation with other relevant policies and programmes
  - The consistency of the interventions envisaged with the EU's Common Strategic Framework for the ESI Funds and the Partnership Agreement between the UK and the EU.
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### Programme Strategy and the Socio-economic Analysis

- 4.1 We consider that the socio-economic analysis in the Operational Programme (and also the UKPA) does largely provide an adequate evidence base to support the interventions proposed. In most cases there is clear evidence on the socio-economic needs, the policy drivers and market failure arguments which support the case of the selected specific objectives and investment priorities. The evidence and analysis is therefore included as part of generally coherent logic chains.
- 4.2 However, the use of the socio-economic evidence either in the UKPA or in Section 1 of the OP does not yet, in our view, adequately justify:
- The scale of investment across the selected TOs (as this has largely been determined in a bottom-up manner drawing on local evidence, which is not necessarily consistent with the evidence used by LEPs)
  - The inclusion of several of the TOs (most noticeably TO5, TO6 and TO7) at all in the OP
  - The extent of investment proposed between the different investment priorities within TOs/Priority Axes (although we have not as yet seen the proposed split of resources between investment priorities).
- 4.3 Part of this is clearly an inevitable consequence of deciding on overall financial allocations across TOs based on the specific investment plans of 39 LEPs<sup>11</sup>. Therefore, the socio-economic analysis does not appear to have sufficiently informed the broad overall shape of the Programme.
- 4.4 This is not to say that the proposed broad thrust of the financial allocations by TO is not in practice sensible (at least for TOs 1 to 4) and on a potential interpretation could be supported by the evidence (this is also discussed in Section 7). Although the use of this evidence and other considerations to justify the proposed allocation at anything other than a fairly high level can be challenging, there is scope to strengthen through better use and presentation of the available evidence.
- 4.5 Within TOs the analysis presented does not at present a clear steer towards the relative importance of different investment priorities.

### Coherence with Europe 2020

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<sup>11</sup> There were 39 LEPs before the merger of Northamptonshire LEP and South East Midlands LEP in March 2017.

- 4.6 A key requirement of the ex-ante evaluation is to consider the consistency or fit of the England programme with the Europe 2020 strategy and its seven flagship initiatives, the Common Strategic Framework and the eleven Thematic Objectives of the Common Provision Regulations, the Commission's assessment of the three funding priorities for the UK<sup>12</sup>, the UK Country-Specific Recommendations (UKCSRs)<sup>13</sup> and the National Reform Programme prepared by the UK Government<sup>14</sup>.
- 4.7 The OP explains the choice of Thematic Objectives and Investment Priorities (notably in Table 1 of the Programme Strategy) and each of these requirements is also considered in the context of the socio-economic analysis. We conclude that there is overall consistency between the OP and the policy priorities of the Europe 2020 agenda (EU2020) and associated headline targets, relevant Thematic Objectives, the UKCSR's and the Commission Position Paper (CPP) for the UK and its Funding Priorities.
- 4.8 We note specifically:
- CLG has sought a strong focus on targeting resource on job creating growth through the framework it has provided to LEPs for the preparation of their European Structural and Investment Funds strategies, in line with Europe 2020
  - The approach to the coordination of ESIFs through the LEPs, should in principle provide a good basis for targeting these important resources at the particular economic development needs and opportunities at a local level
  - However, this approach will not necessarily lead to a targeting of resource and coordination of interventions at disparities which occur across larger spatial areas, nor ensure that individual LEPs select the interventions most appropriate to their specific needs.
- 4.9 Given the gaps in the financial data for the programme and the performance framework, we do not believe it is possible to provide quantified estimates of the contribution of the Programme towards the achievement of specific EU 2020 targets at the member state level.
- 4.10 Nevertheless, based on our knowledge of England and investment strategy for the programme, we are confident that the OP should make a positive contribution to meeting the EU2020 targets for an increase in the employment rate, an increase in research and development and investment, the economic and employment contribution of SMEs and an increase in renewable energy and resource efficiency. However, the adoption of an approach to delivery which will see the programme delivered through 39 LEPs<sup>15</sup> and the allocation of ERDF across 18 investment priorities, will make it particularly challenging to judge the potential impact on these EU2020 targets. If this approach is to be adopted, it will be essential that the monitoring and evaluation framework provides a robust basis for judging the contribution the programme makes to EU2020.

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<sup>12</sup> Position of the Commission services on the development of the Partnership Agreement and programmes in the United Kingdom for the period 2014-2020, Ares(2012)1315758-08/11/12

<sup>13</sup> <http://register.consilium.europa.eu/pdf/en/13/st10/st10660-re01.en13.pdf>

<sup>14</sup> [http://ec.europa.eu/europe2020/pdf/nd/nrp2013\\_uk\\_en.pdf](http://ec.europa.eu/europe2020/pdf/nd/nrp2013_uk_en.pdf)

<sup>15</sup> There were 39 LEPs before the merger of Northamptonshire LEP and South East Midlands LEP in March 2017.

4.11 In Table 4.1 below, we note the way in which key elements of the OP relate to Europe 2020 and other requirements of the programme. As is clear, there is either good or reasonable consistency between the priority axes and these core policy and regulatory documents, at least when judged at this high level.



Table 4.1: Complementarity between Key Aspects of the OP and Europe 2020 and Related Policy Statements

Priority Axes	Consistency and Complementarity with Europe 2020/CSF/CPR/UKCSR/NRP <sup>16</sup>
<p>Priority Axis 1 Research and Innovation                      Focused on a single investment priority (1b), which is justified in the Operational Programme both on the grounds that R&amp;D expenditure must be increased and that SMEs should be better supported to engage in innovation. It focuses on increasing the collaborative research and innovation between large enterprises, research institutions and public institutions to improve SME commercialisation, as well as the number of SMEs innovating to bring new products and processes to the market more generally.</p>	<p>Increasing R&amp;D expenditure (to 3% EU GDP) is a headline target of Europe 2020. Focus on driving up commercialisation of R&amp;D by SMEs is consistent with this objective, a key issue identified in the EU's country specific recommendations and the UK's National Reform Programme (2013). Recognition in PA1 that significant UK research strengths should be better exploited aligns with the Horizon 2020 initiative which identifies this as a priority across the EU. Emphasis on linking enterprise to R&amp;D infrastructure is a prominent feature of PA1, and wholly consistent with thrust of EU Common Strategic Framework. Good Consistency</p>
<p>Priority Axis 2 Enhancing Access to, and Use and Quality of, ICT                      Covers two investment priorities (2a and 2b) and identifies one specific objective for each. The first of these aims to increase coverage and take up of superfast and ultrafast broadband. The second appears to be focused on increasing exploitation of digital technologies and places a particular emphasis on increasing the number of SMEs trading online.</p>	<p>The rationale, specific objectives and actions identified in this priority axis are all consistent with the European and UK regulatory and policy framework, including the ERDF regulations and the CSF. The EU 2020 agenda includes specific targets for coverage of SFB and UFB, as well as the proportion of SMEs trading online. It also aims to increase take-up of broadband, although no specific targets are set. These are all addressed in this priority axis. However, increasing coverage or uptake of broadband is not singled out as a priority for England in the NRP or the Commission's country specific recommendations. Good Consistency</p>
<p>Priority Axis 3: SME Competitiveness                      Covers three investment priorities (3a, 3c and 3d) and identifies two specific objectives. The first is focused on</p>	<p>The EU2020 industrial policy states a clear focus on growth and internationalisation of SMEs. The focus on SME growth is fully consistent with this objective and PA3's emphasis on productivity</p>

<sup>16</sup> The main strategies, policies and regulations that the Operational Programme should be consistent with are Europe 2020, the Common Strategic Framework, the Common Provision Regulation and ERDF specific Regulations, the EU's UK Country Specific Recommendations and the UK's National Reform Programme.

<p>SME growth and spans investment priorities 3c and 3d. The second links to investment priority 3a and focuses on entrepreneurship and has a particular emphasis on reducing disparities in levels of entrepreneurship amongst various groups and geographies.</p>	<p>also links clearly to EU2020 aspirations. The inclusion of business grants, alongside other types of SME finance provision is potentially at odds with the CSF's principles to shift away from grant based support to financial instruments but all other aspects of PA3 align well to the CSF. Reasonably Good Consistency</p>
<p>Priority Axis 4 Supporting the Shift Towards a Low Carbon Economy in All Sectors          Focused on five investment priorities (4a, 4b, 4c, 4e and 4f) which are broken down across four strategic objectives focusing on research and innovation relating to low-carbon technologies, promoting the production and distribution of renewable energy and increasing energy efficiency and implementation of low carbon technologies in businesses and in housing and public buildings. It focuses on reducing the level of greenhouse gas emissions, increasing the share of energy used from renewable sources and increasing the energy efficiency of homes, businesses and transport, across the country, in line with the Europe 2020 targets.</p>	<p>The objectives align to the sustainable growth goals of Europe 2020, including targets for renewable energy generation, greenhouse gas emission reduction and enhanced energy efficiency. In some cases economic targets seem to take precedence over environmental targets under this theme however, which is less in-line with the Europe 2020 targets. CSF targets are focused on the Europe 2020 targets above. In terms of indicative actions, the OP aligns with CSF key actions. The EU Country specific recommendation no. 6 highlights the need for pursuing a long term strategy for improving the capacity and quality of UK network infrastructure, including for energy. The NRP sets out wider Government initiatives to addressing these issues eg Green Investment Bank, and this point is reflected in the OP. The OP therefore sets out an approach targeted at smaller scale energy infrastructure eg localised low carbon, small scale renewables and smart grid infrastructure. Good Consistency</p>
<p>Priority Axis 5 Promoting Climate Change Adaptation, Risk Prevention and Management          Focused on a single investment priority, this priority axis is based on an identified need for protecting economic development potential through investment in flood and coastal flooding management. It focuses on reducing flood risk and the associated economic blight that it can bring, with respect to economic sites remaining undeveloped due to flood risk, and businesses exiting areas which have experienced flood damage and face potential future flooding.</p>	<p>Not an integral aim in Europe 2020, but underpins targets for economic growth by protecting sites to safeguard economic development potential. The OP aligns with CSF key actions relating to investing in adaptation to climate change. However, it does not align with CSF key actions relating to investing in developing strategies and action plans for adaptation to climate change, or developing tools and increased investment in disaster management. The EU Country specific recommendations and NRP do not have a particular focus on climate change mitigation. Less scope for consistency with EU2020, but nevertheless good in other regards</p>

<p>Priority Axis 6 Protecting the Environment          Focused on two investment priorities (6d and 6f) with two respective objectives, covering investment in green and blue infrastructure to increase local natural capital and support sustainable economic growth, and enhancing resource efficiency through innovative technologies. It aims to support the shift to a resource efficient and low-carbon technology, decoupling economic growth from resource use, and turning environmental challenges into growth opportunities.</p>	<p>The objectives align well with Europe 2020, through aims to enhance resource efficiency and enhance biodiversity, air, water and soil quality through investment in green and blue infrastructure. The OP aligns with CSF key actions relating to investment in protection and restoration of biodiversity, sustainable drainage, rehabilitation of contaminated sites and waste management. It does not align with CSF key actions relating to investment in water management and river basin management plans, reduction in transport related air pollution and protecting and enhancing cultural heritage and landscapes.          The EU Country specific recommendations and NRP do not have a particular focus on environmental protection. Reasonable Consistency</p>
<p>Priority Axis 7 Sustainable Transport in Cornwall and the Isle of Scilly          Focused on two investment priorities (7a and 7c). The priority axis selects one specific objective to address 7a, which is focused on improving strategic links with Cornwall through investment in the TEN-T network. 7c is covered by two specific objectives with the same broad aims of improving connectivity and accessibility, but with a different geographical focus for each (Cornwall and the Isle of Scilly).</p>	<p>The main objectives of European policy and strategic documents (including EU2020 and CSF) are to promote stronger strategic links within Europe by focusing capital investment on the TEN-T network, and to encourage more sustainable forms of transport which reduce emissions whilst supporting economic growth. The specific objectives and indicative actions are consistent with these policies, however the rationale for SO1 needs to be revisited to ensure that the TEN-T network within Cornwall is the central focus of investment. The rationale for the other two specific objectives should also provide more detail of how they will meet environmental goals, as the current text is focused exclusively on unlocking economic growth. The priority axis is also broadly consistent with the NRP and country specific recommendations which encourage measures which will improve the capacity and quality of the UK's network infrastructure (including transport). Reasonable Consistency</p>
<p>Priority Axis 8 Sustainable Transport          Focused in two investment priorities (7b and 7c). The priority axis has selected one specific objective for each</p>	<p>The priority axis is consistent with the European policy to focus transport investment in areas which will support the TEN-T network. This could be reinforced if it was confirmed that the examples given</p>

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investment priority, the first of which aims to improve links with the TEN-T network, while the second aims to reduce pressure on the road network by encouraging other forms of transport that support sustainable growth.

in the rationale section for SO1 have prioritised connections to the TEN-T network. The second specific objective and its indicative actions are all consistent with the CSF, which encourages measures which reduce reliance on the car and increase use of more sustainable forms of transport. However, the rationale needs to be more specific in terms of how it will achieve this. Reasonable Consistency

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Priority Axis 9 Promoting Social Inclusion and Combating Poverty and Discrimination

This priority axis includes just one investment priority (9d). It aims to promote social inclusion through the delivery of community led local development strategies. It is separated in to two specific objectives; one focused on capacity building for those delivering CLLD, and a second which aims to address exclusion by improving access to economic growth and development opportunities.

This priority axis is consistent with the European Platform against Poverty and Social Exclusion (part of the EU2020 agenda). This highlights the need to address the multiple forms of poverty and disadvantage experienced by deprived communities, and encourages responses which deliver joined up services that address the multiple forms of disadvantage. The consistency would be strengthened if the PA could demonstrate how delivery of activities will be integrated with those being delivered through the ESF OP. CLLD also shows a strong fit with the UK Government's localism agenda, which encourages communities to take control of their own issues and shape their own solutions, recognised in 'Local Growth: Realising Every Place's Potential'. Good Consistency

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## UK Partnership Agreement

4.12 The draft of the UK Partnership Agreement was submitted to the European Commission in April 2014. We have reviewed the England chapter of the UKPA on a number of occasions during its development and our assessment is below is based on the latest version.

### Socio-economic Evidence

4.13 As noted in Chapter Two, there is reasonable consistency in the consideration of the socio-economic considered across the UKPA and the draft Operational Programme document. The analysis in the UKPA is much more extensive, in a large part due to there being less restriction in terms of the word count. Also, it is the case with both documents that the socio-economic analysis and the case for ERDF investment is much more thorough for Thematic Objectives 1-4, than for the other objectives.

### Respective Objectives and Priorities

4.14 There is significant consistency in the identified priorities for investment between the UKPA and the draft OP, with the majority of the selected specific objectives being the same. There are a number of exceptions to this where the reasons for the divergence in specific objectives are not clear. These are summarised briefly below.

England Chapter of UK Partnership Agreement	Operational Programme
<p>TO1 : Research and Innovation            Explicit focus on encouraging R&amp;I activity in areas lagging in their level of investment (as measured as R&amp;I as a % of GDP)            Includes an objective proposing the need for investment in physical R&amp;I infrastructure</p>	<p>The focus on lagging areas not included in OP, although this is arguably an important consideration for the OP            Not included in the draft OP, although it is certainly relevant in the opinion of the ex-ante evaluators</p>
<p>TO2: Enhancing Access to and Use of ICT            Focused on superfast broadband</p>	<p>Also includes ultrafast broadband, which is an important and relevant inclusion for the OP</p>
<p>TO4 : Low Carbon            Focus on research &amp; innovation; implementation of low carbon solutions &amp; decentralised energy measures and energy efficiency.</p>	<p>Same focus objectives, however indicative activities add possible activities around green and blue infrastructure, and waste reduction which do not appear in the UKPA, do not appear to fit well with the objectives, and would sit better under different priority axes.</p>
<p>TO5 Climate Change Adaptation            Sets out result indicators focused on industrial land protected and available for development, and business start-ups in previously vulnerable areas</p>	<p>Sets out a result indicator focused on 10-year GVA from the investment.</p>
<p>TO7: Sustainable Transport            General focus on improving the viability of areas by appropriate targeted transport investment to facilitate better access to economic development opportunity band development of regional and local mobility</p>	<p>The OP has a stronger explicit focus on sustainable transport and low carbon solutions and also a specific priority for Cornwall and the Scilly Isles. These are, in our, view appropriate, although further comment is provided in a later chapter.</p>

4.15 As noted above, there are also inconsistencies in the choice of result indicators between the two documents. However, this is likely to reflect the different drafting

timescales and we expect this to be fully aligned in subsequent drafts of the documents.

## Conclusions

- 4.16 On the whole, there is good consistency across the UKPA and the draft Operational Programme document, both in terms of the socio-economic evidence, as well as the investment priorities and specific objectives. There are a number of exceptions, where there are differences between objectives and results indicators. Although the reasons for the divergence are not clear, these are likely to reflect the different drafting timescales and we expect this to be fully aligned in subsequent drafts of the documents.
- 4.17 Based on our knowledge of England and the investment strategy for the programme, we are confident that the OP should make a positive contribution to meeting the EU2020 targets for an increase in the employment rate, an increase in research and development and investment, the economic and employment contribution of SMEs and an increase in renewable energy and resource efficiency. However, the adoption of an approach to delivery which will see the programme delivered through 39 LEPs<sup>17</sup> and the allocation of ERDF across 18 investment priorities will make it particularly challenging to judge the potential impact on these EU2020 targets.
- 4.18 Linked to this, the socio-economic evidence used and the analysis carried out is not explicitly used to provide a coherent justification for the proposed resource allocation (across TOs or between different IPs) which underpins the OP's investment strategy. Whilst we fully understand the bottom-up nature of resource allocation through the LEPs, it would provide comfort if the top-down national analysis supported, in a broad sense at least, the parameters of the resource allocation.

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<sup>17</sup> There were 39 LEPs before the merger of Northamptonshire LEP and South East Midlands LEP in March 2017.

## 5. Consistency and Coherence of Programme Priorities

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For each Priority Axis, this section addresses the following specific ex-ante evaluation questions:

- The internal coherence of priority
  - The external consistency with other relevant policies and programmes
  - The rationale for actions (and the strength of the logic chain).
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### Priority Axis 1: Research and Innovation

#### Focus of the Priority Axis

5.1 Priority Axis 1 is based on a single thematic objective (TO1 Strengthening research, technological development & innovation). In turn, a single investment priority (1b) has been selected, which is justified in the Operational Programme both on the grounds that R&D expenditure must be increased and that SMEs should be better supported to engage in innovation.<sup>18</sup> Two specific objectives are identified:

- SO1: Increase the number of SMEs innovating to bring new products and processes to the market
- SO2: Increase collaborative research and innovation between large enterprises, research institutions and public institutions to improve SME commercialisation

#### Feedback Provided to DCLG and their Response

5.2 The ex-ante evaluators have commented on initial and subsequent drafts of Priority Axis 1, and provided advice about the intervention logic. The table below sets out the key points raised in the ex-ante process, and the way the Operational Programme responds.

**Table 5.1 Ex-Ante Evaluator's Comments and Operational Programme Response**

Ex-Ante Evaluators' Comments	How the OP Responds
Feedback Provided prior to OP draft dated 18 <sup>th</sup> June 2014	
Focus of Priority Axis 1 should be developed further. The policy agenda of Europe 2020, Innovation Union and Horizon 2020 is a broad one, and the Operational Programme will need to be clear about what aspects of this agenda ERDF will be specifically targeted at.	Operational Programme and UK Partnership Agreement now make it clear that commercialisation of innovation, particularly by SMEs, is the key priority for ERDF investment.
Needs and opportunities for SMEs should be clearly	The justification for TO1 and the Investment

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<sup>18</sup> Promoting business investment in R&I; developing links and synergies between enterprises, research and development centres and the higher education sector; promoting investment in product and service development, technology transfer, social innovation, eco-innovation, public service applications, demand stimulation, networking, clusters and open innovation through smart specialisation; and supporting technological and applied research, pilot lines, early product validation actions, advanced manufacturing capabilities and first production, in particular in key enabling technologies and diffusion of general purpose technologies.



described and linked to justification for TO1 and the Investment Priority. The emphasis was initially on strengths and weaknesses in R&D infrastructure.	Priority strikes a better balance between evidence on strengths of R&D knowledge infrastructure and the challenges facing SMEs. In particular, OP points to specific barriers SMEs face in commercial innovation.
Rationale for ERDF investment in TO1 would benefit from setting out where in the process of commercialising innovation SMEs face particular barriers.	References to access to finance are included as a key issue facing SMEs, but Operational Programme would benefit from identifying other specific aspects of the process (eg. taking new products to market).
Need to demonstrate more clearly how investment in R&D infrastructure would be expected to contribute to driving up commercial R&D activity and innovation by SMEs.	Description of SO2 and actions points to scope to strengthen interaction between knowledge base and companies. However, it describes types of activities that 'can' lead to commercialisation rather than setting out firm commitments to activities that will deliver against the specific objective. The description of actions should still be clearer about focus on SMEs, the types of beneficiary to be supported and whether or not capital investment is required for facilities. Examples of interventions (eg. mentoring, graduate placements, competitions) could also be given.
Consider whether PA1 should cover both Investment Priorities (1a and 1b) from the ERDF regulation given the potential for capital investment in research facilities.	Not addressed in the Operational Programme.
Focus on R&D tax credits as a key indicator of investment in innovation by SMEs needs further justification both in terms of why it is appropriate and what it suggests about SME innovation performance. A small proportion of SMEs claim tax credits, and there may be risks that the measure does not capture the outcomes of ERDF investment to support interaction between SMEs and HE institutions.	Operational Programme points to disparities in value of R&D tax credits claimed across England, with detail provided in the UK Partnership Agreement. There is also a reference to differences between large and small company take up, although this is likely to reflect in part the challenges SMEs face in generating match funding and meeting criteria to claim. Risk that R&D tax credits do not capture majority of innovation by SMEs is offset by proposed use of UK Innovation Survey
Limited reference to the Smart Specialisation Strategy for England and the specific strengths and priorities it identifies.	There is now brief reference to England's smart specialisation strategy in the justification for TO1, although this acknowledges that Local Enterprise Partnerships have approached RIS3 in different ways. Sector priorities are mentioned in description of SO2 actions. Guiding principles for the selection of actions point to projects needing to demonstrate consistency with the Strategy and briefly identifies in general terms sector priorities and the eight great technologies. In general, greater clarity on how the Strategy will guide ERDF investment is needed.
Feedback provided in response to OP Draft dated 18th June, 2014	
The meaning of a 'lack of internal capacity and access to external networks', which is identified as a key barrier, should be specified in more detailed terms. This would better enable actions that relate	This point is not addressed in the updated draft. It needs a brief explanation to enable the barrier to be linked to potential actions.

to this barrier to be linked to the evidence.	
The wider role and strengths of the research base beyond higher education institutions, including large companies and other public sector organisations. Priority Axis 1 sets objectives to improve collaboration between business and the research base, but the focus in the evidence is primarily on HEIs. Both the Partnership Agreement and the Smart Specialisation Strategy provide this information and could be cross referred.	Partly addressed in updated draft with text on link between large companies and HEIs, but text should include reference to evidence on R&D activity of large companies and importance of links with innovating SMEs
The types of SMEs the evidence suggests should be the target of ERDF intervention. The justification points to the need to work with companies with more than 10 employees, and to the link between innovation and fast growing SMEs. However, the emphasis on the take up of R&D tax credits as a key indicator of innovation performance also points to businesses engaged in scientific and technological development being key targets.	Point about the need for clarification about the type of SMEs that should be the target for ERDF intervention not addressed in updated draft.
Given the emphasis on linking the research base to business (Specific Objective 2) and the strengths of England in this area, the evidence appears guarded on the importance of this relationship. It refers only to it being 'one way of supporting innovation within SMEs'. Surely the evidence should establish that this has been considered to be one of the most effective or the most effective types of intervention.	Addressed in the updated draft
Consider how to ensure that SO1 and SO2 are distinct objectives in their own right	Our view remains that improved collaboration between SMEs and large enterprises, HEIs and other research organisations is a mechanism for improving and increasing SME innovation to bring new products, processes and services to market
Note how the evidence of sector and technology priorities, research strengths and commercial strengths set out in England's Smart Specialisation Strategy has shaped the evidence base for the Operational Programme.	Addressed briefly in updated draft.
Give more specific examples of actions	Not addressed in the updated draft. The response is that the use of specific examples will imply a limitation on the range of actions.
The wording of the action on collaboration between business and the research base should be clearer. Is the emphasis on developing links involving established facilities, or does the action also imply investment in the facilities themselves?	
Focusing on a limited number of sector priorities and enabling technologies from the Smart Specialisation Strategy should be a guiding principle for action rather than an action in its own right.	Removed from description of actions, and paragraph added to the guiding principles section.

The description of actions would also be strengthened by greater clarity about the main target groups and beneficiaries. Currently, the Programme refers to SMEs, larger firms in cooperation with their supply chains and other SMEs, higher education institutions, public sector research centres, Catapult Centres and other centres of excellence. The Programme should perhaps be clear here that the main focus is on improving SME innovation.	Wording clarified in updated draft
Is there potential for major projects with capital investment in research facilities? Set out whether there is a capital investment element in the investment priority and the scope of this requirement.	This has not been addressed in the updated draft.
Given the centrality of this research base to Specific Objective 2, the Operational Programme should briefly summarise the evidence on the types of business-research base interactions which work best, and the range of private and public research institutions which operate in addition to HEIs in this field.	No further detail added on the types of interventions which work most effectively.
Evidence on the take up of R&D tax credits points to substantial disparities across England in terms of the volume and value of SME investment in innovation, and innovation activity more generally. However, this issue does not appear to be addressed in the objectives for PA1, actions or guiding principles.	Not addressed in the updated draft. Some indication should be given as to how the focus of ERDF investment may differ between the three categories of area.
Potential cross-over to other Priority Axes could be drawn out.	Not addressed in updated draft.

## Review of the Priority Axis

### Development Needs and Opportunities

- 5.3 The justification for Priority Axis 1 now makes it clear that there is a need to increase R&D expenditure (public and private) in England, and that there are strengths in both the research base (particularly HEIs) and business environment on which to build.
- 5.4 Barriers to SME innovation are identified in the Operational Programme, and these are key to providing both the rationale for ERDF investment in this area and to identifying the range of interventions that are required to address these barriers. Reference to market failures points to a lack of information for SMEs about how to engage in innovation, uncertainty about the risks, costs and benefits involved. Access to finance is also specifically earmarked as a key barrier to innovation by SMEs, which provides the foundation for financial instruments to be included as part of the range of investment available in PA1.
- 5.5 Generally, there is a reasonably clear link between these development needs and opportunities and the choice of Investment Priority, Specific Objectives and Actions. SMEs need to be supported to understand how innovation activity will benefit the business, to engage in the development of new products and processes, and to exploit the benefits of working with research institutions. However, there are a number of remaining points which should be addressed:

- The meaning of a ‘lack of internal capacity and access to external networks’ which is identified as a key barrier, should be described in slightly more detailed terms. This would better enable actions that relate to this barrier to be linked to the evidence.
- Specific Objective 2 focuses on the need to improve and increase collaboration between SMEs and England’s research base (HEIs, large companies, other research organisations). The development needs and opportunities section refers to evidence on HEI R&D and to HEI-large company interaction. However, the section needs brief references to evidence on the importance of connections between SMEs and large companies along with other types of research organisation. Both the Partnership Agreement and the Smart Specialisation Strategy provide this information and this could be cross-referenced.
- The types of SMEs the evidence suggests should be the target of ERDF intervention. The justification points to the need to work with companies with more than 10 employees, and to the link between innovation and fast growing SMEs. However, the emphasis on the take up of R&D tax credits as a key indicator of innovation performance also points to businesses engaged in scientific and technological development being key targets.

5.6 The evidence base points to the significant disparities between different parts of England in terms of innovation performance. This applies to the numbers of firms actively involved in R&D, the commercialisation of products, processes and services and the value of investment in R&D. It is exemplified by the variation in the take up of R&D tax credits, with the South East and East of England standing out in performance terms. At present, how these disparities in performance have informed the approach to ERDF investment in PA1 is not clear. The Programme simply suggests there should be collaboration across all categories of region. For example, are there areas in which the evidence points to a greater need to invest in research facilities? Addressing this issue will be important if the Operational Programme is to operationalise the Smart Specialisation Strategy conditionality which stipulates that resources should be concentrated on a limited set of research and innovation priorities (Annex IV, Common Provisions Regulation).

#### Investment Priority and Specific Objectives

- 5.7 The wide breadth of Investment Priority 1b in the ERDF Regulation means that it offers the scope to cover a comprehensive range of activities through ERDF investment. However, given that the potential for capital investment in existing and new facilities is identified in the PA1 actions, the ex-ante evaluators considered whether there were grounds for the Programme to have included Investment Priority 1a (Enhancing research and innovation infrastructure and capacities). This particularly applies to innovation infrastructure and capacities, an investment type which includes physical infrastructure intended to support business to business collaboration, or business-HEI collaboration. The potential for this type of investment is identified in the Operational Programme. However, it is made clear in PA1 that such investments will be limited, and will focus on investment in, for example, a technology hub.
- 5.8 The key issue is whether the two specific objectives selected are sufficiently distinct. SO1 sets out to increase the number of SMEs engaging in innovation that brings new products and processes to market. In effect, it could be regarded as the headline objective for PA1, with ERDF providing a source of additional investment to support

the measures needed to achieve this objective. SO2 focuses on collaboration between large enterprises, research institutions and public institutions, with the aim of improving the commercialisation of innovation by SMEs. This could be considered to be one of the key mechanisms of delivering the objective set by SO1.

#### Description of Actions

- 5.9 A broad range of potential actions are identified in PA1. We make the following observations about this section:
- In general, it would benefit from some specific examples for a number of actions. For instance, it would be useful to give an indication under the action to promote business investment in research and innovation measures such as investment advice, business mentoring or competitions. The ex-ante evaluators reviewed drafts of Priority Axis 10 (Sustainable Urban Development). The section on research and innovation in PA10 includes numerous such examples and provide a good template.
  - The actions refer to support for innovation in the development of services. Project developers would look to the OP to provide a guide as to the types of innovative activity that might be supported with ERDF. As it stands, PA1 does not make it clear that innovation to develop new services is a priority alongside product and process innovation.
  - The description of actions should also provide a clear picture of how each type of action is linked to the specific objective and the outcomes sought.
- 5.10 The potential for ERDF capital investment is also suggested in the indicative actions for PA1. Specifically, it refers to ‘supporting the development of existing (and a limited number of new) enterprise, innovation and technology hubs and centres of excellence, manufacturing clusters and the development of appropriate test facilities, pilot lines and advance manufacturing capabilities’. There is also a reference to capital investment in new buildings under ‘Suggested Deliverables’ for the environmental sustainability horizontal. Projects of this type could be larger scale and involve substantial amounts of ERDF investment. With finite ERDF resources available, it is important that the focus for capital investment and the criteria by which the Programme would ensure that resources are concentrated are made clear.

## Summary

#### Consistency with Policy

- 5.11 The rationale, specific objectives and actions earmarked for Priority Axis 1 are consistent with European Union policy and the priority it attaches to research and innovation (EU2020 and Innovation Union). Specifically, it addresses the priority attached by Innovation Union to focusing on SME innovation, strengthening research-business collaboration and better exploiting R&D capacities.
- 5.12 The Operational Programme is also consistent with the UK national policy framework (Innovation and Research Strategy 2011). The Strategy emphasises the need to boost the innovative capacity of businesses, strengthen the interface between businesses and higher education institutions and improve the environment for commercialisation.

- 5.13 The need to drive up business R&D and better exploit the UK's research strengths are clearly recognised in the UK Government's National Reform Programme (2013), while the EU's country specific recommendations point to the need to increase business R&D expenditure. In this respect the main objectives of PA1 are clearly consistent with the recognition that this is a key issue to be addressed.

#### Consistency with Socio-Economic Analysis

- 5.14 The narrative thread linking the socio-economic analysis to Priority Axis 1 has been strengthened during preparation of the Operational Programme. The ex-ante evaluators' advice about the need to reflect evidence on the barriers facing SMEs is now better drawn through in broad terms into the justification for Specific Objectives 1 and 2, and the indicative actions it identifies. However, PA1 would benefit from a little more detail about what the OP's evidence base suggests about specific barriers, including the issues faced in geographic areas where innovation investment and performance are lagging.
- 5.15 Both the Operational Programme and the UK Partnership Agreement recognise the strengths of the research base, with particular emphasis on higher education institutions. The Programme points to both the opportunity this presents to exploit these assets and the challenges faced in ensuring that they work effectively to support commercial innovation. Given the centrality of this research base to Specific Objective 2, the Operational Programme should briefly summarise the evidence on the types of business-research base interactions which work best, and the range of private and public research institutions which operate in addition to HEIs in this field.
- 5.16 Evidence on the take up of R&D tax credits points to substantial disparities across England in terms of the volume and value of SME investment in innovation, and innovation activity more generally. However, how this variation might be reflected in different needs for ERDF investment does not appear to be explicitly addressed in the objectives for PA1, actions or guiding principles.

#### Coherence between Thematic Objectives/Priorities

- 5.17 Innovation and the need to strengthen innovation activity by SMEs is an integral component of several Thematic Objectives/Priority Axes, including PA2, PA3 and PA4 in particular, and also to PA10 (Sustainable Urban Development). Internal coherence and the need to limit the potential for overlap or duplication is therefore an important issue for the Operational Programme. The ex-ante evaluation highlights the following points in this regard:
- PA3 identifies potential actions which will drive up productivity in SMEs and which will contribute to product, process or service improvement. In practice, what would be defined as innovation (internal to SMEs) is likely to be central to this activity. Ensuring that there is sufficient clarity in the Operational Programme will be essential in guiding LEPs and project developers towards the appropriate investment priority.
  - SMEs supported with ERDF which are engaged in earlier stage R&D activity may subsequently have more general support needs (eg. developing business plans, market testing, export advice) and PA3 could play a role in meeting these needs.

- Investments to develop the low carbon economy, promote resource efficiency and adapt to climate change will be innovation intensive. The focus of PA6 and PA7 could therefore be referenced in PA1, which could give an indication that measures for sectors and technologies relevant to these objectives will be covered under those Priority Axes.
- There is provision for research and innovation to be supported with ERDF under Priority Axis 10. How SUD actions might work alongside activity supported through PA1 should be briefly described in the Operational Programme. Many of the key HEI R&D are located in London and the other eight core cities, and there are substantial numbers of innovation active companies in those locations. They are likely to be the areas which would benefit from the majority of PA1 ERDF investment, so the link to PA10 activity will be important.

#### Ex-Ante Conditionality

- 5.18 The need for Thematic Objective 1 to be supported by a Smart Specialisation Strategy (RIS3) is an ex-ante condition (Annex IV, Common Provisions Regulation). The ex-ante evaluators have had the opportunity to review drafts of England's Smart Specialisation Strategy, which has reached its later drafting stages.
- 5.19 What remains not fully clear is how far investment in ERDF projects will be concentrated on sectors, technologies, R&D facilities etc. identified in England's RIS3. The EU's guidance is clear that 'all operations funded under TO1 have to contribute to the implementation of the relevant smart specialisation strategy (RIS3).' At present, the Operational Programme indicates only that there should be consistency with RIS3 in the selection of projects. For example, there is an opportunity at 2.A2 to make it clearer that the assessment of innovation capital in relation to sectoral strengths across the wider national and European economy is linked to the priorities identified in the Smart Specialisation Strategy.

#### Adequacy of the Intervention Logic

- 5.20 The intervention logic has been extensively discussed with the ex-ante evaluators. It has been refined through several iterations, and now provides a clearer sequence of steps from the evidence base to the actions and indicators for the investment priority.

#### Resources, Indicators and Targets

- 5.21 As yet, a detailed breakdown of proposed allocations by category of expenditure has not been provided to the ex-ante evaluators. However, with £0.76 billion ERDF earmarked for Priority 1, it is important to understand how much resource might be allocated to capital investments, particularly the development of new facilities envisaged by the Programme. Such investments have the potential to absorb substantial amounts of ERDF.
- 5.22 The challenges of measuring innovation investment by SMEs in action which leads to the development of new products and processes are recognised by the ex-ante evaluators. However, the Programme needs to ensure that it captures as much as possible of any increases in innovative activity in SMEs that results from ERDF investment.
- 5.23 Use of the R&D tax credit indicator has the advantage of providing a specific measure of the value of R&D investment, linked to the commercial development of products,

processes and services. However, the ex-ante evaluators are not convinced that the weaknesses of the measure outweigh the disadvantages.

- 5.24 The most recent version of the OP we have reviewed has replaced the original results indicator for SO2 (number of enterprises collaborating with large companies, research organisations and public institutions) with one which would measure the value of services provided to businesses by HEIs. This would have the advantage of reflecting the scale and intensity of collaboration. However, it may not reflect the full range of engagement between HEIs and business that could encourage companies to develop new products or services, triggered by this engagement but which do not involve a financial transaction. It also excludes large company and research organisation collaboration with SMEs since the focus is HEIs.
- 5.25 While we recognise the difficulties of capturing the outcome of collaboration, some form of survey evidence which measured the impact of collaboration on a beneficiary SME in terms of product, process or service innovation would better reflect Specific Objective 2's aims.

#### Main Remaining Issues

- 5.26 There are several outstanding issues in the final draft of PA1 in the Operational Programme:
- Further clarify how the requirements of RIS3 to concentrate resources on a limited set of research and innovation priorities, drawn from England's Smart Specialisation Strategy, will be implemented.
  - Give more specific examples of actions, which may include the range of actions identified for PA10. Ensure that actions can be clearly linked to the objectives for PA1.
  - Provide additional detail on how the horizontal principles will be implemented in PA1, perhaps with reference to the link between innovation and responses to the grand social challenges, sustainable development and the low carbon economy.
  - Consider whether Local Enterprise Partnerships and higher education institutions will require technical assistance to support investment activity in PA1. At present the indication is that they do not.

## Priority Axis 2: Enhancing access to and use of ICT

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#### Focus of the Priority Axis

- 5.27 This priority axis is focused on the Enhancing Access to, and Use and Quality of, ICT Thematic Objective. It includes two Specific Objectives (SO) which each correspond to an investment priority. These are summarised in Table 5.2. The first SO appears to be focused primarily on extending the coverage of broadband networks and increasing take up, while the second focuses on increasing exploitation of digital technologies (although this could be clearer).



**Table 5.2 Investment Priorities and Specific Objectives in Priority Axis 2**

Investment Priorities	Specific Objectives
IP1. Extending broadband deployment and the roll-out of high-speed networks and supporting the adoption of emerging technologies and networks for the digital economy	SO1. Increase the coverage and take up of superfast and ultrafast broadband in areas where the market is failing, particularly where this is creating a barrier to SME growth
IP2. Developing ICT products and services, e-commerce and enhancing demand for ICT	SO2. Increase the number of SMEs using and having access to digital technologies including trading online

## Previous Feedback to CLG and their Response

- 5.28 Table 5.3 provides a summary of the feedback provided to CLG so far and its response. The initial feedback provided to CLG was based on the initial drafts of the intervention logic provided to the ex-ante evaluation team. A second set of comments were issued following receipt of the OP Draft dated 18<sup>th</sup> June 2014.

**Table 5.3 Feedback and Response for Priority Axis Two**

Specific Objective 1 – feedback provided prior to OP Draft dated 18 <sup>th</sup> June, 2014	
Feedback	Response in Current OP
The initial intervention logics put too much emphasis on the deployment of infrastructure rather than increasing take up. For this reason, the key result indicator should be related to business adoption.	The latest intervention logic has changed the result indicator to one related to take-up of broadband, however this has not been updated in the OP.
Include a stronger justification for the selective focus on supporting investment in infrastructure and cross reference the case making paper prepared by DCMS.	The justification for infrastructure investment has not moved on in the latest draft. We understand that a technical session has been arranged with the Commission which will explore many of the concerns they have raised. We expect that this section of the OP will be updated following this session. We also understand a case making paper has now been submitted to the Commission although this has not been available for review in this phase of the evaluation.
More explanation and evidence about the causes of low business take-up of superfast and ultrafast broadband should be included.	The authors have responded to this feedback and provided relevant evidence in the intervention logic table and in the evidence base section in Chapter One. However, the PA chapter could be strengthened by referring back to this evidence and ensuring that the actions respond directly to the issues raised.
Concern about the wording of types of action to be supported, including the reference to deploying infrastructure in areas where it is proving to be a barrier to business growth.	The wording is still retained in the specific objective. On reflection, the wording is acceptable as it could refer to selective investments in UFB for business parks/high growth businesses etc with a need for faster broadband.
Specific Objective 1 – feedback provided in response to OP Draft dated 18 <sup>th</sup> June, 2014	
Provide a more detailed rationale for investment in infrastructure following the results of the technical session with the EC.	The feedback from the technical session with the EC has yet to be incorporated in to the document. However, the document does give a better indication of the scale of the challenge and how funding will be used.
Provide more evidence of the market failure argument that the revenues for suppliers do not	The priority axis chapter has removed the reference to this market failure argument,

capture the social, environmental and economic benefits of broadband.	however it still appears in chapter one and is not substantiated with any evidence.
Greater emphasis on increasing coverage of ultra-fast broadband	The priority axis chapter still gives little attention to UFB. The results indicators are still focused on SFB.
The OP should reflect the range of possible delivery models for infrastructure investments	The priority axis now notes other possible delivery mechanisms, including vouchers, but gives the impression that the majority of funding will be used as match funding for BDUK investment in a gap funded model.
Provide indicative actions which stimulate demand for NGA by raising awareness of its benefits	There have been changes made to the indicative actions in the priority axis, however these still look like measures to increase exploitation rather than awareness raising. We do appreciate that there is likely to be some cross-over, but the actions here should be explicitly about improving businesses' knowledge of the benefits of superfast broadband rather than showing them how to exploit it once they are subscribers.
Ensure that actions relate to increasing access or take up and do not relate to exploitation of broadband which is covered by SO2	See above.
Revise results indicators so that they are focused on take up rather than access, and cover both SFB and UFB	The results indicators have been changed. However they are both still focused on coverage of SFB. The second result indicator is "access to SFB" but this is the same thing as coverage. It should say "take-up" or "adoption". There are no indicators for coverage and take up of UFB.
Include a clear statement of how infrastructure investment in rural areas will sit with activity funded through EAFRD	There is still no indication of how ERDF will work with EAFRD.
Specific Objective 2 - feedback provided prior to OP Draft dated 18 <sup>th</sup> June, 2014	
This SO is concerned with demand for digital technologies, not just exploitation. More evidence was required showing the low take up among smaller businesses.	The intervention logic and OP both now provide evidence showing the low take-up of broadband among SMEs.
Strengthen the evidence relating to exploitation of ICT and provide more explanation of the specific barriers that this SO is seeking to address.	The OP now includes evidence on the low exploitation of ICT and the specific barriers, although this is overly focused on e-commerce.
Specific Objective 2 – feedback provided in response to OP Draft dated 18 <sup>th</sup> June, 2014	
Consider revision of the wording of the SO, or provide clearer explanation of what is meant by "increasing use" of digital technologies which appears to overlap with SO1	The wording of SO2 is unchanged and the text does not provide a description of what is meant here by "use" and how it is distinct from SO1.
Revisit the rationale and focus for SO2 (including the results indicator) and reduce emphasis on online sales	A number of changes have been made to the priority axis, which is now less focused on online sales and covers a broader range of applications. However the result indicator is still focused on online sales
Include statements on how the business support activities will add value to and not duplicate activities funded through PA1 and PA3.	There are still no statements on how the priority axes will complement each other and not duplicate activity.
Remove references to increased access to SFB in list of indicative actions, which duplicates activity in SO1	These references to increased access to SFB have been removed.

## Review of the Current Priority Axis

### Specific Objective One – Increase Coverage of SFB and UFB

- 5.29 The specific objective for this investment priority permits a range of possible investments. This includes investment in superfast and ultrafast networks and measures which increase demand for high speed broadband. Although the revised draft includes more references to UFB and the challenges of low take-up, it continues to give the strong impression that the priority will be on increasing coverage of superfast broadband. The priority axis devotes several paragraphs to those (mostly rural) areas of the country which do not have access to SFB and the competitive disadvantage they have against the rest of the country. The priority axis does not provide any commentary on the competitive disadvantage caused by poor access to UFB in those locations with high concentrations of knowledge intensive SMEs (including urban centres and business parks) with a demonstrated demand for ultra-fast speeds.
- 5.30 The relative importance attached to SFB over UFB is reflected in the choice of result indicators, which still does not include an indicator for UFB, whereas the target for SFB coverage is 100%. We would question whether 100% coverage of SFB is an achievable or desirable use of ESI funds, given that the remaining 5-10% are predominantly rural areas which are not home to large concentrations of businesses. The remaining under-served areas are also likely to have additional costs associated with them due to remoteness and technical/engineering challenges, plus are also likely to be less commercially viable and require even greater gap funding investment for ever fewer additional properties to be connected. In contrast, selective UFB investments in locations with high concentrations of knowledge intensive SMEs and which have a demonstrated demand for faster speeds, could generate much higher returns and would also help to address other European priorities around SME competitiveness and innovation and the second part of the Digital Agenda for Europe target of 50% properties connected to UFB.
- 5.31 The financial allocations tables show that roughly three times as much investment is being proposed for SFB compared to UFB. The OP does not provide any explanation of how these allocations have been determined, however we would argue that they have been based more on equity considerations than economic impact. The priority axis should provide a justification for this weighting and present a stronger framework for prioritising investments, with a greater focus on economic impact and value for money.
- 5.32 The revised OP now devotes more attention to the challenge of low take-up. Chapter one includes data on adoption and provides a welcome discussion of the reasons for low rates of adoption among businesses. However the take up data presented in the Priority Axis chapter itself is confusing and misleading. It presents several pieces of data which all either inconsistent or appear to be measuring different things:
- “At present only 10.1% of businesses use broadband above 30 Mbps”. This appears to be the most relevant statistic, but it is inconsistent with the data in the results table which shows 15.9% of businesses use SFB.
  - “Take up is increasing rapidly: 25% of the UK’s premises now have access to SFB”. It is unclear what is meant by ‘access’ here. Access is usually interpreted to mean the same as coverage and does not relate to take-up. In any case, this is measuring take-

up of premises overall rather than businesses. This is likely to have been driven by households' increased demand for high speed broadband<sup>19</sup> and is a very different market to business customers.

- “On BT’s network, the number of customers doubled in the year to May 2014, and 14% of premises have now taken up SFB... the earliest projects funded by BDUK now have take-up above 20%.” These statements also appear to relate to total premises (dominated by the residential market) and are confusing when presented alongside all of the other statistics.

- 5.33 The priority axis should remove all of the data relating to take-up of premises as it presents a misleading picture. None of the evidence presented supports the case that businesses take up is increasing rapidly, and this statement undermines the case for including demand stimulation activity in the priority axis.
- 5.34 The results table includes one indicator which appears to be related to take-up/adoption, although it has been labelled ‘access’ which is confusing. It sets a target for 20% take-up of SFB by 2023, compared to a target of 100% coverage. This would mean that 80% of businesses are not using the network. It raises further questions about the value for money offered by spending ERDF on infrastructure in the most rural areas (not to mention the technical feasibility) at the expense of demand stimulation measures and UFB investment. It is not clear from the financial allocations how much investment has been allocated to demand stimulation activities as it is not clear which is the relevant code in the financial tables<sup>20</sup>. This should be made clearer in the text.
- 5.35 The current draft has responded to our previous comment that the OP should reflect the range of possible delivery models for infrastructure investments, and not just the gap-funded approach. Although the text does acknowledge that other models could be used, the emphasis is still on the gap funded model and states clearly that ERDF is to be used as match funding for BDUK’s next round of investment. There is a danger that this will steer partnerships toward this gap funded, BT-led approach at the expense of other innovative schemes which could be more cost-effective in rural areas. This will also require contracts to be signed before June 2015 in order to be progressed under the current UK state aid umbrella negotiated by BDUK.
- 5.36 As noted in Table 5.3, there is no indication of how this Priority Axis will work alongside EAFRD, which also supports investment in “the creation, improvement and expansion of broadband infrastructure” in rural areas. If the main focus of this priority axis is delivering SFB in the final 10% as indicated in the current draft, then there is clear overlap with EAFRD as the majority of these locations will be in rural areas. The OP needs to provide an indication of how the two will work together.
- 5.37 The indicative actions for this SO have been revised since the previous draft. The first indicative action is very general: “improve access to superfast and ultrafast broadband” and it may be helpful here to include some specific examples of the possible delivery models that could be used by projects in addition to gap-funding and vouchers. The second action is focused on increasing take-up, which is welcome, however the examples look like measures to increase exploitation (IP telephony solutions, cloud

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<sup>19</sup> Driven in large part by streaming of TV and films

<sup>20</sup> Code 046 and 047 both appear to relate to infrastructure investment (for SFB and UFB respectively), while code 082 appears to relate to ICT exploitation which is covered by SO2.

computing etc). We appreciate that there is a degree of overlap between exploitation and demand stimulation activities, since businesses will need to understand the key applications available through SFB/UFB, however the actions included here should relate more closely to awareness raising rather than actions to helping businesses implement SFB/UFB-dependent solution as this is covered by SO2.

- 5.38 The outputs should also reflect the range of activity that could be delivered and should include measures for businesses gaining access to both SFB and UFB and the number of businesses subscribing as a result of ERDF support.

#### Specific Objective Two – SME Use of Digital Technologies

- 5.39 Specific Objective 2 is to increase the number of SMEs using and having access to digital technologies including trading online. As noted above, the aim to increase ‘use’ of digital technologies suggests a possible overlap with SO1 which is also aiming to increase take up of SFB and UFB. The distinction between what is covered in each case should be made clearer. This point was raised in our comments on the first draft but has not been addressed.
- 5.40 The rationale for intervention in this area is that SMEs are not fully exploiting the opportunities that ICT offers due to a lack of knowledge. This point is made in the evidence base section in Chapter One, but it should be more explicit that this is the market failure rationale for intervention in this SO. It should also cite studies which have identified imperfect information as a market failure (OECD 2009<sup>21</sup> is one example).
- 5.41 The changes made to SO2 have responded to many of the comments made on the first draft, in particular its excessive emphasis on online sales/e-commerce at the expense of other opportunities for SMEs to exploit digital technologies. The revised draft includes more evidence on the productivity benefits of ICT applications for smaller firms and evidence that SMEs are underusing a wide range of digital technologies (citing evidence from Lloyds Bank on the “digital maturity” of SMEs). However the result indicator for the SO is still focused on e-commerce. There is a clear danger that this result indicator will influence the types of projects which are funded, with a bias towards those focused on increasing online sales. The focus on e-commerce could also limit the potential pool of beneficiaries as the majority of businesses which are interested in this application are likely to be retail businesses, which are often deemed to be not eligible for ERDF support.
- 5.42 We appreciate the difficulty of finding appropriate indicators which could be influenced by the range of activity being proposed for this priority axis. The ONS’s ICT and e-commerce survey provides an annual and consistent source of information on businesses’ use of ICT. If a more relevant indicator cannot be identified from the current survey, CLG should consider requesting that ONS modify the questioning to generate a more appropriate indicator in future surveys.
- 5.43 The list of actions has been revised and there is now less overlap with SO1. However, one of the output indicators still relates to “additional businesses with broadband access of at least 20mbps”. This should be removed as it is more relevant to SO1 activity which aims to increase access and take up of SFB.

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<sup>21</sup> <http://www.oecd.org/ict/4d/43631862.pdf>

## Summary

- 5.44 Conclusions have been drawn for the Priority Axis as a whole in relation to the key ex-ante evaluation tests. These are as follows:

### Consistency with Policy

- 5.45 The rationale, specific objectives and actions identified for Priority Axis Two are consistent with EU policy and the emphasis it places on ICT. The targets for 100% coverage of SFB and 50% coverage of UFB, as set out in the Digital Agenda for Europe, are recognised in the OP document and the UK Partnership Agreement. The OP is also consistent with the Digital Agenda's aspiration to increase take up and exploitation of SFB, although it does not state this explicitly. The OP is also consistent with UK Policy, which set a target for 90% coverage of SFB by 2015 and included aspirations to increase take up and exploitation, although it does not reference this policy.

### Consistency with socio-economic challenges and opportunities

- 5.46 Priority Axis Two is broadly consistent with the key socio-economic challenges in relation to ICT, those being inadequate access to desired speeds in some parts of the country, and low take-up and exploitation of digital technologies across large areas. However, in our opinion, it continues to place too much weight on the first of these challenges relative to the other two, given the focus of policy. The result indicators are also heavily weighted toward increasing SFB coverage and e-commerce, and are not consistent with the challenge of increasing take up and exploitation of the wider range of digital technologies which can help SMEs grow.

### Internal Coherence

- 5.47 The coherence of Priority Axis Two has improved since the initial draft, however it could still be further developed. Some actions in SO1 are focused on exploitation and appear to have a better fit with SO2. One of the outputs indicators identified for SO2 is focused on increasing access to SFB which is relevant to SO1. The OP needs to be clearer about what each SO will fund to minimise the risk of duplication and provide programme managers and bidders with clarity.
- 5.48 The Priority Axis also needs to provide a stronger statement on how it will minimise duplication of activity funded through PA1 (R&I) and PA3 (SME competitiveness), both of which include business support measures which could use digital technologies. However, we do accept the need to retain measures aimed at increasing exploitation in this Priority Axis as the agenda requires a broad approach and is not primarily focused on infrastructure.
- 5.49 It is not clear from the OP how the objective to increase coverage will sit alongside EAFRD, which, according to the CSF, also permits investments in "the creation, improvement and expansion of broadband infrastructure" in rural areas. The current draft of the OP includes several references to the need for faster broadband infrastructure in rural and isolated areas so it needs to be clear on how it will avoid duplicating activity in other structural funds.

## Adequacy of the Intervention Logic

- 5.50 We have not received a revised intervention logic table since December 2013. Based on the current draft of the OP, the results, actions and outputs are all broadly consistent with the identified development needs. The intervention logic could be strengthened by:
- More evidence of the need for UFB in certain locations and the economic costs that this imposes, and inclusion of an additional result indicator which responds to the need for greater coverage of UFB in these locations;
  - Changing the result indicator for SO2 so that it is responding to the need to raise businesses' use of a wide range of ICT applications.

## Ex-ante Conditionalities

- 5.51 The ex-ante conditionalities for broadband infrastructure investment require that a national or regional Next Generation Network Infrastructure plan is in place that identifies the current or planned coverage of NGA infrastructure, sets out sustainable investment models that provide competitive services and includes measures to stimulate private investment.
- 5.52 No up to date national document exists for England which identifies current and planned coverage, although all local areas which have received BDUK funding should have in place a local broadband plan which identifies the existing coverage of SFB networks and demonstrate how they will provide affordable and competitive services. The coverage data in these broadband plans is now out of date and we are unaware of any documents that set out the coverage of existing or planned NGA networks once the current round of BDUK investment is complete.
- 5.53 The OP does state that any further local broadband projects seeking to use UK and European funding would be required to produce its own Local Broadband Plan which would ensure that this conditionality is met. We also understand that the UK Government is planning to publish a digital communications infrastructure strategy by the end of 2014 to consider broadband infrastructure plans over the next 10-15 years. This may also satisfy the ex-ante conditionality.

## Main Outstanding Issues

- 5.54 Provide a more detailed rationale for investment in infrastructure in SO1, following the results of the technical session being arranged with the Commission (as far as we are aware, this has not yet taken place).
- In SO1, remove all of the data relating to total take-up of SFB which is distorted by the residential market. This should remove the reference to take-up increasing rapidly which undermines the argument for demand stimulation activity.
  - In SO1, describe the framework for prioritising investments in broadband infrastructure. This should have a greater focus on economic impact and value for money and re-balance the focus on SFB coverage in rural areas where the returns may be limited compared to UFB investments in more densely populated areas.
  - In SO1, provide an additional result indicator focused on access to/take-up of UFB.

- In SO2, the result indicator should be changed to reflect the broader scope of this specific objective. It may be necessary to discuss with ONS how a suitable indicator could be included in their future ICT and e-commerce surveys.
- Ensure that there is a clear division in the actions, outputs and results for SO1 and SO2. SO1 should be focused on infrastructure investment and demand stimulation, while SO2 should be focused on exploitation (business support).
- Include additional statements on how the business support activities funded through this Priority Axis will add value to, and not duplicate, activities funded through PA1 and PA3.
- There should also be a clear statement of how infrastructure investment in rural areas will sit with activity funded through EAFRD.

## Priority Axis 3: Enhancing the Competitiveness of SMEs

### Focus of the Priority Axis

5.55 Priority Axis 3 is focused on enhancing the competitiveness of SMEs. The Priority Axis covers three Investment Priorities and includes three Specific Objectives. The scope of investments encompasses those focused on the growth of existing and newly established SMEs as well as investments to increase levels of entrepreneurship and start-up activity.

### Feedback Provided to CLG and their Response

5.56 Feedback provided to CLG was based on the initial drafts of the intervention logic and detailed comments were provided in the first Ex-ante Review Report (December, 2013), and subsequently in June 2014. The table below includes a summary of:

- The main points raised in the first ex-ante review report and how these were addressed in the second draft OP
- The main points raised in the second ex-ante review and how these were addressed in the most recent draft (received 11<sup>th</sup> July).

Table 5.4 Ex-Ante Evaluators' Comments and Operational Programme Response	
Ex-Ante Evaluators' Comments	How the OP Responds
Ex-ante Evaluators Feedback and Responses on OP prior to 18 <sup>th</sup> June	
The OP needs to draw on a more comprehensive socio-economic assessment to identify the challenges that Priority Axis 3 is being designed to address.	The socio-economic assessment has been updated in the latest draft of the Operational Programme and now provides a clearer summary of the socio-economic challenges that PA3 is seeking to address and draws on more detailed material in the Partnership Agreement.
Improve the read across between development needs and the selection of Investment Priorities, Strategic Objectives and actions.	This comment has not been adequately dealt with in SO1 and SO2. The link between identified development needs and the selection of Investment Priorities needs to be strengthened and a more focused set of Specific Objectives developed.
The current list of investment priorities in the logic	The updated draft includes a much more



chain needs to be reviewed and edited down to a manageable set of priorities which reflect the socio-economic challenges relating to this theme.	manageable set of IPs although the rationale for their selection and the relationship between them is unclear in places (as explained below). The focus on a smaller number of IPs has not been reflected in a clearer and more focused set of actions and activities under each.
The logic chain suggests a focus on innovation and R&D within the SME Competitiveness TO which is not echoed in the draft OP. The distinction between objectives and activities under this and PA1 need to be clearly stated and tested.	The emphasis on R&D and innovation has been lessened in the updated draft. The lack of clarity on the precise distinction between innovation actions between this priority and PA1 remains however.
More detail is required in the description of priorities to highlight priority areas and sectors.	This has not been addressed. The updated draft does not highlight priority areas, sectors or technologies.
There is a need to identify where there is a particular need to strengthen business finance and business support. Data and intelligence should be drawn from market assessments so that the sectors / locations where access to finance and business support is poor can be identified. Other factors such as life stage of SME, type of investment etc. could also be considered.	This has been strengthened in the evidence base in the UKPA in particular and to some extent in section one of the OP. The FI ex-ante assessment also considers this issue, providing further evidence.
<b>Ex-Ante Evaluators' Comments and Responses on draft OP dated 18<sup>th</sup> June</b>	
As the drafting of the IPs is relatively loose, it is necessary to state clearly how the focus of the selected IPs has been interpreted and reflected in the SOs.	No information on how the focus of the IPs has been interpreted is provided in the OP.
SO1 and SO2 need to be more specific to provide clarity on the particular needs and opportunities that these SOs are seeking to address.	Although the wording and descriptions of the SOs has changed slightly, they remain very broad and are not specific enough to provide a clear picture of the needs and opportunities they are seeking to address. It is not clear what the difference between growth capacity (SO1) and growth capability (SO2) is, or indeed if this distinction is intended.
Proposed actions under SO1 and SO2 need to be more clearly defined so that their purpose and focus is clear and the relationship between the two SOs is more apparent.	The lack of specificity in these two SOs feeds into the description of activities beneath them. The proposed actions remain poorly defined and the relationship between the two Objectives is still unclear.
The distinction between PA1 and PA3 needs to be clearly outlined and the interrelationships between these priority axes considered.	This comment has not been addressed in the latest draft OP.
There is no information on the target beneficiaries for SO1 and SO2. This needs to be considered and clearly reflected in the descriptions of the SOs. In particular more clarity on whether and how high growth potential SMEs will be targeted is needed.	The reference to high growth potential businesses has been removed from the latest draft. This suggests that there is now no intention to target activities towards SMEs with high growth potential. If this is the case, then this needs to be clearly stated and justified. The description of SO1 and SO2 does not include any reference to sectoral or geographical targeting. If there is no intention to target investments towards particular target groups, this needs to be clearly stated and justified.
More clarity on how financial instruments will contribute to objectives under the Investment Priorities is needed.	Information relating to financial instruments does not reflect the focus of specific objectives. For SO1 and SO2 the identified focus of financial instruments is not appropriate to the specific objectives and for SO3 no information is provided

	on the likely focus of financial instruments.
Consideration of the likely match of Specific Objectives with potential opt-in services is needed	Some information has been included in relation to Opt-ins, although this is in the context of the use of major projects. The OP does not consider the likely match of specific objectives with potential opt in services.
The selected result indicators could be affected by a range of wider factors and their usefulness at the England level is questionable. In particular a more targeted measure for employment creation in existing SMEs is needed.	This has not been addressed.
The balance between general and targeted activity in SO3 needs to be more clearly stated.	This comment has not been addressed.

## Review of the Priority Axis

### SPECIFIC OBJECTIVES 1 AND 2 – SME GROWTH AND HIGH GROWTH FIRMS

5.57 Specific Objectives 1 and 2 have been reviewed together due to their similarity, although they relate to different but related investment priorities (as set out in Table 5.5).

**Table 5.5 Investment Priorities and Specific Objectives**

Investment Priorities	Specific Objectives
IP1. Supporting the creation and the extension of advanced capacities for products and service development	SO1. Increase growth <u>capacity</u> of SMEs
IP2. Supporting the capacity of SMEs to grow in regional, national and international markets and to engage in innovation processes	SO2: Increase growth <u>capability</u> of SMEs

5.58 The overarching reflection on the updated draft is that it still does not provide sufficient clarity on the focus of activities within and between these two specific objectives and their related Investment Priorities. In particular, more clarity on the following is needed:

- The Specific Objectives are too high level and insufficiently specific about the needs / opportunities they are seeking to address. As a result they are not as useful as they should be in framing the investment strands which are intended to sit beneath them.
- The difference between “capacity” and “capability” needs to be much clearer. If the difference in terminology alludes to a difference in focus between the two SOs, this should be clearly stated.
- The proposed actions under each SO/IP are poorly defined and consequently the purpose and relationship between the two Objectives is unclear.
- The lack of distinction between the two SOs is further compounded by the draft Operational Programme not providing sufficient clarity on the underpinning strategy and intended beneficiaries (eg types of SMEs) or spatial dimension of each SO/IP.
- PA1 and PA3 overlap: the focus on SME competitiveness in this Priority Axis will naturally give rise to actions related to SME innovation. Indeed, the importance of innovation to SME competitiveness is reflected in the references to product and service development in the Investment Priorities. The nature of this innovation focus and the type of activities to be supported is not sufficiently

distinct from those under Priority Axis 1 and nor is the intended relationship between what should be complementary strands of investment. For example specialist innovation support (e.g. to develop a specific technology or product) under PA1 could be followed by more general support (e.g. to identify or access markets) under PA3.

- 5.59 With these points in mind, there needs to be a clearer distinction between the underpinning investment strategies for the two SOs/IPs. The purpose and focus of activities to be funded within each need to be clearer, including the linkages between them and the manner in which they will contribute to improved competitiveness and business growth.
- 5.60 The development of a more clear logic chain throughout the description of SOs will enable the priority axis to more clearly identify target beneficiaries. As currently drafted the guiding principles highlight the processes and structures that will be used but do not clearly outline who the target beneficiaries will be, how these will be identified and why they are important.
- 5.61 The lack of detail on how priority SMEs will be identified is a major weakness in the current draft. The authors need to provide a clearer statement on the extent to which services will be targeted towards SMEs with high growth potential, in priority sectors and more clearly explain how they will be identified.
- 5.62 The information relating to financial instruments is not sufficiently tailored to the Specific Objectives (although this is related to the issues detailed above on their breadth). The authors should ensure that the types of financial instruments identified and their focus are appropriate to the Specific Objectives. Although the latest draft indicates that major projects may materialise in this PA, it suggests that this is likely to occur around three nationally procured opt-in schemes. Although the points noted above should have implications for the selection of results indicators, the focus should remain on SME growth and we therefore offer the following observations:
- SME productivity. This is a reasonable indicator of SME competitiveness and could be a useful marker of increased propensity to grow, but it will not capture all of the expected impacts of the proposed actions. The Annual Business Survey is an appropriate data source but the achievability of the target of reducing the gap between small and large business productivity is questionable.
  - The number of jobs in SMEs. This is a logical selection given the focus on SME growth but as it could be influenced by a range of factors (not least the formation of new SMEs) the indicator should focus on the increase in employment in existing firms (i.e. those over a specific age). The wording of the indicator and the proposed data source (BRES) will not allow change in employment in firms over a specific age to be identified. The ONS Business Demography dataset could provide a more appropriate data source.
- 5.63 It is important to recognise the breadth of wider factors which could influence outcomes on both of these indicators and it might be difficult to detect and attribute change to the ERDF investment in a robust way (although this is clearly an evaluation rather than a monitoring issue). Also the level of ERDF grant for the priority axis, although substantial in its own right (£1.4bn), is modest in terms of the potential to contribute to overall changes in these indicators. Their usefulness as result indicators at an England level is questionable.

### SPECIFIC OBJECTIVE 3 – ENTREPRENEURSHIP

5.64 The selected Specific Objective and corresponding Investment Priority are outlined below.

**Table 5.6 Investment Priorities and Specific Objectives**

IP3: Promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms, including through business incubators	SO3: Increasing entrepreneurship, particularly in areas with low levels of enterprise activity and amongst under-represented groups
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5.65 The updated draft of SO3 provides a more clear account of the nature and focus of activities that will be supported than SO1 and SO2, although the description of and justification for the Strategic Objective lacks detail in places. More detail and clarity is needed on the following in particular:

- The balance between general and targeted activity. A more clear statement on the expected balance between activities focused on reducing disparities and more general start-up activities is needed.
- The level of focus on particular types of enterprise activity. There is no indication of a desire to focus explicitly on start-up businesses with high growth potential or those in particular sectors and the draft does not state clearly whether high tech start-up support would fall within this Investment Priority. If the intention is for activities here to be generalised and for more targeted activities to sit within other priority axis/strategic objectives then this should be clearly stated and cross referenced.
- How financial instruments will be used. The text included in relation to financial instruments is generic and needs to be tailored to reflect the specific finance needs of start-up businesses (of the type that this Investment Priority will focus upon), in particular repayable micro-finance and the possibility of grant.
- The type of grant and loan funds that are appropriate for different target groups. The level of focus on specific types of start-up will determine the range of finance types that will need to be included as specific actions. The inclusion of early stage equity funds as a specific activity suggests a desire to focus on high growth potential businesses, although this is not stated elsewhere. Once more detail on the specific focus of activities and target groups is provided, this should be supplemented with a clear statement on the likely finance requirements and anticipated gaps in provision.

5.66 The result indicators highlighted in the intervention logic differ from those included in the draft Operational Programme. The authors should consider whether the result indicator (total early stage entrepreneurial activity or TEA) which is included in the Operational Programme will adequately capture impacts. The number of business start-ups can be easily captured and will provide a more direct measure of performance under this strategic objective.

5.67 An indication of the employment created by business start-ups (e.g. number of FTEs in businesses less than 2 years old) would help to reflect employment growth associated with actions under this Investment Priority. It would also strengthen the indicators to include survival rates as a measure. This would also capture high growth start-ups.

## Summary

- 5.68 Conclusions have been drawn for the thematic objective as a whole in relation to the key ex-ante evaluation tests. These are as follows:

### CONSISTENCY WITH POLICY

- 5.69 On the basis of the information available, there appears to be broad consistency. The specific focus of much of Priority Axis 3 remains unclear, the focus on SME growth is entirely consistent with the Common Strategic Framework and aspirations set out within EU2020<sup>22</sup>. This also reflects the analysis with the UK Partnership Agreement. The lack of specific sector targeting mechanisms within PA3 is at odds with some aspects of the Partnership Agreement, which clearly states a need to diversify away from declining sectors and focus on high growth potential businesses.

### CONSISTENCY WITH SOCIO-ECONOMIC CHALLENGES AND OPPORTUNITIES

- 5.70 At the headline level, the focus on SME growth and raising level of entrepreneurship are consistent with the challenges identified in the UK Partnership Agreements. As the updated draft still fails to clearly define the focus of activities beneath the three Specific Objectives and link these explicitly to socio-economic challenges and opportunities, it remains difficult to assess in detail the consistency of the priority axis with the specific socio-economic challenges presented in the UK Partnership Agreement.

### Internal Coherence

- 5.71 Priority Axis Three is not internally coherent. In particular, the distinction between the focus of SO1 and SO2 (and associated actions and outputs) remains unclear. As currently drafted there is significant overlap between them and there is a risk of duplication and a lack of clarity for programme managers and bidders. More amendments are needed to SO1 and SO2 to ensure that the focus of each is clear and the potential for overlap is removed.
- 5.72 The draft still lacks a clear statement about how Priority Axis 1 will sit alongside activities funded through Priority Axes 1 and 2 and how the risk of overlap between these priority axes will be reduced.

### ADEQUACY OF THE INTERVENTION LOGIC

- 5.73 The rationale for actions within priority axis 3 is not clearly stated – for SO1 and SO2, this is linked to a lack of sufficient specificity in the objectives and the underpinning investment strategies. For SO3, the issue is related to a lack of detail. It is difficult to fully assess whether the outputs and results are consistent with the focus and actions under priority axis 3 as it remains unclear what, specifically, investments under this Priority Axis are intending to achieve. The logic chain should be revisited in light of the recommendations made here and the draft updated to ensure that there is a clear narrative thread running through the Priority Axis.

### EX-ANTE CONDITIONALITIES

- 5.74 The ex-ante conditionalities for PA3 relate to regulatory and administrative barriers to enterprise and business operation. Specific actions to reduce the time and cost of setting up a business and accessing permits and licenses needed for business

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<sup>22</sup> Integrated Industrial Policy for the Globalisation Era

operation are identified and the OP describes the measures in place to reduce these barriers to enterprise.

- 5.75 The third conditionality highlights a need for a mechanism to monitor the implementation of the Small Business Act (and the first two conditionalities). The OP states clearly that this conditionality is fully met at a UK level through the activities of the SME Envoy who oversees the implementation of the Small Business Act. The description could be improved an overview of the framework used to measure progress in implementation was included, or a reference provided.

#### FINANCIAL ALLOCATIONS

- 5.76 The OP does not provide sufficient detail to allow comment on the financial allocations for PA3.

#### Main Remaining Issues

- 5.77 Very few of the issues raised in the second ex-ante review have been reflected in the updated draft so the main issues raised in the previous review still need to be addressed. These are:
- 1) The lack of clarity in the distinction between SO1 and SO2. The authors need to carefully consider their interpretation of the selected SOs and refocus the objectives to ensure that they add focus to the Investment Priority and provide the basis for a clear set of actions.
  - 2) A statement is needed to clearly explain and justify whether activities under priority axis 3 will be targeted towards specific types of SMEs and start-ups.
  - 3) More clarity is needed on the distinction between activities under priority axis 3 and others which contain an SME Competiveness element (most notably priority axis 1 and 3).

## Priority Axis 4 – Shift Towards a Low Carbon Economy

#### Focus of the Priority

- 5.78 Priority Axis 4 covers support for the shift towards a low carbon economy across all sectors. This is focused on reducing the level of greenhouse gas emissions, increasing the share of energy used from renewable sources and increasing the energy efficiency of homes, businesses and transport, across the country, in line with the Europe 2020 targets.
- 5.79 There are four specific objectives across five investment priorities under this priority axis (note: some specific objectives cover two investment priorities).

**Table 5.7 Investment Priorities and Specific Objectives**

Investment Priorities	Specific Objectives
Investment Priority 1: Promoting Research and Innovation in, and adoption of, low carbon technologies	Specific Objective 1: Increase innovation in, and adoption of, low carbon technologies
Investment Priority 2: Promoting the Production and Distribution of Energy Derived from Renewable Sources	Specific Objective 2: Increase implementation of whole place low carbon solutions and decentralised energy measures

Investment Priority 3: Promoting Low-carbon Strategies for all Types of Territories, in particular for Urban Areas, including the Promotion of Sustainable Multimodal Urban Mobility and Mitigation-Relevant Adaptation Measures	Specific Objective 2: Increase implementation of whole place low carbon solutions and decentralised energy measures
Investment Priority 4: Promoting Energy Efficiency and Renewable Energy Use in Enterprises	Specific Objective 3: Increase energy efficiency and implementation of low carbon technologies in all types of enterprise
Investment Priority 5: Supporting Energy Efficiency, Smart Energy Management and Renewable Energy Use in Public Infrastructure, including in Public Buildings and in the Housing Sector	Specific Objective 4: Increase energy efficiency and implementation of low carbon technologies

## Feedback Provided to DCLG and their Response

- 5.80 The table below provides a summary of the feedback provided to CLG so far and its response. The initial feedback provided to CLG was based on the initial drafts of the intervention logic provided to the ex-ante evaluation team. A second set of comments were issued following receipt of the OP Draft dated 18<sup>th</sup> June 2014.

**Table 5.8 Feedback and Response for Priority Axis Four**

Feedback	Response in Current OP
Feedback Provided prior to OP draft dated 18 <sup>th</sup> June 2014	
In early drafts significant gaps remained with respect to output and result indicators and their quantification. The result indicators in particular needed significant refinement to ensure they adequately captured the change that is being sought.	Further development of indicators has taken place and significantly improved since earlier drafts, although targets are not yet quantified at this stage.
The focus of the priority axis in earlier drafts had a stronger focus on economic growth than on reduced emissions, increased energy efficiency and increased renewable energy sourcing, which appeared to be slightly out of line with Commission guidance.	This has been balanced to some extent, however the narrative still suggests economic growth as a higher priority objective than the low carbon aspirations (as it is suggested that the renewable energy, energy efficiency and greenhouse gas emissions targets for 2020 will already be met by wider Government actions).
Development needs were not clearly articulated and there was limited sense of prioritisation	Further development and prioritisation has taken place and improved since earlier drafts.
There was limited sense of consistency between LEP plans and the activities set out under this thematic objective	Indicative actions set out now closely reflect the aspirational investment areas set out by LEPs.
More clarity was needed about the crossover between this priority axis and PA1, with respect to research and innovation investment around the low carbon economy.	This overlap remains unclear, and it is not necessarily clear to which priority axis an R&D / innovation project relating to low carbon should apply.
Specific Objective 1 (IP1) – feedback provided in response to OP Draft dated 18th June, 2014	
OP does not discuss the contribution that R&D and innovation under this SO can bring to reducing the cost of large-scale renewable energy generation – so that it can become more commercially viable	Not addressed
Links should be explicitly made to the national smart specialisation strategy	Reference is made to this, however it would be beneficial to highlight the key parts of the national strategy that investment under this SO

Feedback	Response in Current OP relates to.
Further work is needed to refine the set of indicative interventions, to give a clearer and more consistent structure of activity and a stronger sense of prioritisation	Minor amendments have been made, however the activities continue to lack clarity and coherence overall.
Need to ensure a clear differentiation between support provided under this SO and support under Priority Axis 1, as well as with innovation actions under specific objective 3 and 4 of this priority axis	Not addressed
The result indicator may be too broad to usefully measure the specific impact of this SO, given the wide range of investment being made to develop the LCEGS sector in England	Not addressed
Output and result targets need to be quantified	Not addressed
Specific Objective 2 (IP2) – feedback provided in response to OP Draft dated 18th June, 2014	
Significant overlaps in indicative activities between activities under IP2 and IP3 which share this SO, and across other SOs. This may lead to confusion during delivery phase. Intervention list needs to be refined.	Some refinement made to reduce overlaps, however the activities continue to lack clarity and coherence overall
Some of the listed output indicators (eg employment creation) may not be relevant and should be revised.	Not addressed
Unclear how the result indicator will be measured or what the baseline is	Not addressed
Output and result targets need to be quantified	Not addressed
Specific Objective 2 (IP3) – feedback provided in response to OP Draft dated 18th June, 2014	
Significant overlaps in indicative activities between activities under IP2 and IP3 which share this SO, and across other SOs. This may lead to confusion during delivery phase. Intervention list needs to be refined	Some refinement made to reduce overlaps, however the activities continue to lack clarity and coherence overall
Several of the listed indicative activities appear inappropriate under this investment priority which is focused on the development of strategies and action plans, rather than their implementation	Not addressed
The social housing (low-carbon retrofit) financial instrument is identified for potential use under this investment priority however it appears unlikely that it would be relevant	This has been removed
The output and result indicators will need to be revised in line with the redrafting of this section, to reflect suitable measures for the intended activities	Not addressed
Specific Objective 3 – feedback provided in response to OP Draft dated 18th June, 2014	
UKPA suggests that the UK is currently on target or ahead of target to hit its Europe 2020 targets for greenhouse gas emission reduction and reduced final energy consumption. The OP however suggests that more intervention is needed to hit these targets. This point requires clarification	Not addressed
This SO does not emphasise the wider business benefits for the low carbon and environmental goods and services sector, and the opportunity to reduce energy costs for businesses, helping	Not addressed



Feedback	Response in Current OP
to make them more competitive	
Overlaps between this and other SOs (and with activities under PA6) with relation to indicative activities listed	Minor amendments have been made, however overlaps remain and activities overall continue to lack full clarity, coherence and sense of prioritisation
The listed indicative activities lack clarity and coherence, and as such do not give a strong sense of where there will be targeted intervention to make a significant difference through this SO	
Output indicators will need to be revised in line with the redrafting of these indicative activities, to reflect suitable measures for the intended activities	Not addressed
Result indicator needs to be revised in line with revisions to indicative activities	Not addressed
Specific Objective 4 – feedback provided in response to OP Draft dated 18th June, 2014	
UKPA suggests that the UK is currently on target or ahead of target to hit its Europe 2020 targets for greenhouse gas emission reduction and reduced final energy consumption. The OP however suggests that more intervention is needed to hit these targets. This point requires clarification	Not addressed
Overlaps between this and other SOs with relation to indicative activities listed	Minor amendments have been made, however overlaps remain and activities overall continue to lack full clarity, coherence and sense of prioritisation
The listed indicative activities lack clarity and coherence, and as such do not give a strong sense of where there will be targeted intervention to make a significant difference through this SO	
The outputs are all enterprise focused, yet the energy efficiency outputs such as households with improved energy consumption classification would appear to be more appropriate	Output indicators updated and now reflect a more sensible set of targets.
Different result indicators are shown compared with those under IP4 (which shares the same objective)	Not addressed – differing targets reflects a need for splitting IP4 and IP5 into two separate specific objectives.
It is unclear how the stated result indicators would be defined and measured	Reduced to a single indicator, however it remains unclear how this will be defined and measured
Output and result targets need to be quantified	Not addressed.

## Review of the Priority Axis

- 5.81 A detailed analysis of the current draft priority axis on a specific objective by specific objective basis is provided below.

Specific Objective 1: Increase innovation in, and adoption of, low carbon technologies

- 5.82 Overall, the need for investment in research and innovation is recognised as being a key part of developing low carbon markets, both to enhance progress towards renewable energy, energy efficiency and greenhouse gas generation targets, but also to generate economic growth and support transition to a sustainable low carbon economy.
- 5.83 The OP highlights that despite the limited progress made to date against the Europe 2020 renewable energy generation target (4.2% UK energy from renewables against a

target of 15% by 2020), wider Government activity will ensure that this target is met. However, it does not highlight the importance of R&D and innovation to the UK's aspirations to reduce the cost of large scale renewable energy generation (eg offshore wind, wave and tidal), so that it can become more commercially viable - which is important to the UK hitting its longer term aspirations for growth of renewable energy generation and targets for greenhouse gas emission reduction. The OP should be clearer about the extent to which R&D and innovation activity will support this national agenda.

- 5.84 Further work is needed to refine the set of indicative interventions, which needs to give greater clarity about both the type of intervention that will be supported (eg R&D projects, innovation projects, capital investments etc) and the technology areas which will be supported (eg low carbon vehicles is highlighted but other areas are not explicitly referred to). While these indicative actions match well with the aspirational areas for investment set out by LEPs, they need to be refined to give a clearer and more consistent structure of activity.
- 5.85 It is also important that there is a stronger sense of prioritisation in the indicative activities, in order to give confidence that the investments will be sufficiently targeted to make a difference in those investment areas. A clearer priority list of target technology areas for investment linked to smart specialisation, for example, would significantly strengthen this.
- 5.86 There is also a need to ensure a clear differentiation between support provided under this specific objective and support under Priority Axis 1, as well as with innovation actions under specific objective 3 and 4 of this priority axis.
- 5.87 The output targets selected all appear to be appropriate for this SO.
- 5.88 The result indicator would help to capture the economic benefits from this objective, however may be too broad to usefully measure the specific impact of this SO, given the wide range of investment being made to develop the LCEGS sector in England. If more clarity is provided regarding the technology focus for the indicative activities, then a subset of LCEGS sectors targeted around the main technology areas for investment may provide a more useful indicator.
- 5.89 Neither outputs nor the result indicator are quantified at this stage, so it is not possible to comment on these at this stage.

Specific Objective 2: Increase implementation of whole place low carbon solutions and decentralised energy measures (under renewable energy production IP)

- 5.90 The UKPA highlights the limited progress made to date against the Europe 2020 renewable energy generation target (4.2% UK energy from renewables against a target of 15% by 2020), however highlights that the relatively limited funding available through this programme would be able to have limited impact in accelerating large-scale renewable energy developments, which are being addressed in other ways by Government. The approach under this specific objective to directly supporting renewable energy generation is therefore focused on supporting smaller scale, localised renewable energy interventions, which appears sensible.
- 5.91 There is clearly a strong overlap with Investment Priority 3, across which a single specific objective is shared. At present the lists of indicative activities across the two has a large degree of overlap, although they are not identical. Furthermore, some of

the indicative activities listed are also listed under other investment priorities. These overlaps could lead to confusion in the delivery phase, and it may be better for the indicative activities to be split accordingly between the relevant SOs/IPs, particularly as financial allocations will be made by investment priority.

- 5.92 Furthermore, the remaining investment areas which are focused upon localised renewable energy generation are in several cases unclear and appear to overlap (eg: support increased use of renewable and low carbon fuels/energy, waste to energy projects, decentralised renewable energy, resilient energy infrastructure). Significant work is needed to refine, clarify and rationalise the list of indicative actions to ensure that they are clear and consistent with the aims of the specific objective and investment priority.
- 5.93 The output targets mostly appear to be appropriate for this investment priority, although, depending on the revised set of indicative activities, some may not be necessary eg there may be limited opportunity for new employment creation in supported businesses.
- 5.94 The result indicator relating to this investment priority (ie the first result indicator listed relating to renewable energy) appears to be broadly sensible in capturing the increase in local renewable energy developments, however it is not fully clear at this stage how this will be measured or what the baseline for this is. It may also be useful to describe the 'capacity' of local energy renewables rather than the 'level'.
- 5.95 Neither outputs nor the result indicator are quantified at this stage, so it is not possible to comment on these at this stage.

Specific Objective 2: Increase implementation of whole place low carbon solutions and decentralised energy measures (under the Promoting Low-carbon Strategies IP)

- 5.96 The UKPA highlights that the UK has also already exceeded its 2020 target for greenhouse gas emission reduction and is tackling larger scale renewable energy developments through wider Government policy. The focus is therefore on supporting smaller scale, localised carbon reduction, energy efficiency programmes, which are currently less well supported by wider Government policy, which appears to be a sensible approach.
- 5.97 There is clearly a strong overlap with IP2, across which a single specific objective is shared. As highlighted above, at present the lists of indicative activities across the two has a large degree of overlap, and some of the indicative activities listed are also listed under other investment priorities (eg building retrofit and energy efficiency which is also listed under Investment Priorities 4 and 5). These overlaps could lead to confusion in the delivery phase, and it may be better for the indicative activities to be split accordingly between the relevant investment priorities, particularly as financial allocations will be made by investment priority.
- 5.98 More significantly, several of the listed indicative activities appear inappropriate under this investment priority which is focused on the development of strategies and action plans, rather than their implementation. As such the SO, narrative and indicative activities will need to be redrafted to reflect the intended nature of this investment priority.

5.99 Similarly the output and result indicators will need to be revised in line with the redrafting of this section, to reflect suitable measures for the intended activities to be delivered under this SO / IP.

Specific Objective 3: Increase energy efficiency and implementation of low carbon technologies in all types of enterprise

5.100 The UKPA suggests that the UK is currently on target or ahead of target to hit its Europe 2020 targets for greenhouse gas emission reduction and reduced final energy consumption. The OP however suggests that more intervention is needed to hit these targets. This point requires clarification. It would also be useful to clarify the greenhouse gas emissions relating to industry, as only the total GHG emissions across the UK are set out in the UKPA.

5.101 The OP highlights the benefits from investment in energy efficiency in reducing greenhouse gas emissions, however does not emphasise the wider business growth opportunities in the low carbon and environmental goods and services sector, or the opportunity to reduce energy costs for businesses, helping to make them more competitive.

5.102 There is clearly a strong overlap with SO4, which has a similar specific objective. At present the lists of indicative activities across the two has a large degree of overlap, although they are not the identical. Furthermore, some of the indicative activities appear to overlap with other investment priorities. The focus on investment in innovation and new technologies also suggests an overlap with SO1, and the reference to waste reduction overlaps with activities under Priority Axis 6 (where this activity fits better).

5.103 These overlaps could lead to confusion in the delivery phase, and it may be better for the indicative activities to be split accordingly between the relevant investment priorities, particularly as financial allocations will be made by investment priority.

5.104 More significantly, the listed indicative activities lack clarity and coherence, and as such do not give a strong sense of where there will be targeted intervention to make a significant difference through this investment. Overall the list of interventions needs significant refinement.

5.105 Similarly the output indicators will need to be revised in line with the redrafting of these indicative activities, to reflect suitable measures for the intended activities to be delivered under this SO / IP. It may be that some are less relevant eg employment creation in assisted businesses, as the measures may be more likely to lead to cost reductions for the business, rather than creating new company growth.

5.106 The result indicator relating to this SO appears to be sensible in capturing the decrease in energy consumption by key sectors, although more thought may be needed regarding the definition of sectors on which to focus eg the largest industrial energy consumption is likely to come from larger firms which ERDF cannot assist, therefore the ability to affect this result indicator may be limited. The breakdown to separate result indicators for the industrial / service sectors would seem more sensible if it was clear which activities were targeted towards the achievement of each of those indicators.

5.107 Neither outputs nor the result indicator targets are quantified at this stage, so it is not possible to comment on these at this stage.

#### Specific Objective 4: Increase energy efficiency and implementation of low carbon technologies

- 5.108 As highlighted above, the UKPA suggests that the UK is currently on target or ahead of target to hit its Europe 2020 targets for greenhouse gas emission reduction and reduced final energy consumption. The OP however suggests that more intervention is needed to hit these targets. This point requires clarification.
- 5.109 Again there is strong overlap with Investment Priority 4, which has a similar SO, and there is a great deal of overlap between the indicative activities listed under this SO and the other SOs for this priority axis. These overlaps could lead to confusion in the delivery phase, and it may be better for the indicative activities to be split accordingly between the relevant investment priorities, particularly as financial allocations will be made by investment priority.
- 5.110 As with other SOs under this priority axis, the indicative activities are also poorly defined and lack coherence. As such, it is not possible to get a clear view of how investment will be used under this SO to target improvement across the broad ranging topic which the investment priority covers. Significantly more work is needed to clarify and prioritise the indicative activities under this SO.
- 5.111 The outputs now reflect a sensible set of measures, however, without greater clarity and coherence in the indicative interventions, it is not possible to comprehensively comment on their adequacy.
- 5.112 The single result indicator provides a potentially useful measure, although would not capture the impact of activities in public buildings. It is also not fully clear how this indicator would be defined and measured. The fact that the result indicator does not match with that for IP4, which shares the same specific objective, reflects the need to separate the specific objectives for IP4 and IP5.
- 5.113 Neither outputs nor the result indicator are quantified at this stage, so it is not possible to comment on these at this stage.

### Summary

#### Consistency with Policy and Socio-Economic Analysis

- 5.114 Overall the fit with European and national policy as well as local enterprise partnership aspirations is acceptable at a high level for this priority axis. There is a generally clear understanding of the progress of England and the UK against the key Europe 2020 targets for energy efficiency, renewable energy generation and greenhouse gas emission reduction, and broadly sensible decisions have been taken regarding the targeting of ERDF funds to support progress towards these targets and to the wider economic growth agenda, alongside other national interventions.
- 5.115 However, beneath the headline approach, there are substantial weaknesses at a more detailed level. SOs lack clarity, coherence and prioritisation of indicative activities, meaning that the OP does not currently give a clear sense of how specifically it is responding to the policy and socio-economic context, and how it will be able to target interventions to deliver change.
- 5.116 In a number of places, there is scope for greater recognition of the dual economic and environmental benefits of investments under most investment priorities where only one or the other is emphasised at present and in some sections the economic case for

intervention under this priority axis appears to take precedence over environmental targets, which is not in-line with Commission guidelines and aims.

#### Coherence between Thematic Objectives / Priorities

- 5.117 The priority axis is split down into five investment priorities which provide a useful framework. The SOs also appear broadly sensible and in-line with the aspirations set out in LEP plans. SO2 however may need to be slightly reworded to reflect the focus of investment priority 3 on developing, not implementing, low carbon plans.
- 5.118 At present there is significant overlap in the indicative activities set out under different IPs / SOs. This should be resolved by dividing specific intervention types down between relevant investment priorities, to avoid confusion during delivery phase. Within each IP / SO there also needs to be more work done to refine and clarify the nature of interventions that the OP will support, in order to provide a clear, coherent and targeted approach to the use of funds, which is currently lacking.
- 5.119 There is also potential overlap with R&D and innovation investments under Priority Axis 1, as well as waste reduction measures under Priority Axis 6. It would be beneficial to ensure there is clarity in the OP about what the division of activity should be between these differing priority axes.
- 5.120 It would furthermore be useful to make reference to the linkages between activities under this Priority Axis and those under the SUD in Priority Axis 10, for which a further £31m is available to support activities that link to this priority axis.

#### Adequacy of the Intervention Logic

- 5.121 The broad development needs and framework for interventions are adequate at a high level, and the financial allocation by category of area to this priority axis meets the minimum financial allocation required.
- 5.122 Overall there are several areas where the Intervention Logic could be strengthened. These include:
- Strengthening the detailed development needs for SOs as set out in the individual sections above
  - Providing greater clarity about the breakdown of indicative activities between SOs and across Priority Axes
  - Reviewing the overall clarity, coherence and prioritisation of indicative activities set out under each SO
  - Reviewing output indicators for each SO, to ensure that they are the most suitable indicators, following review of the indicative activities above
  - Refining and clarifying the methodology and baselines for the result indicators
  - Develop quantification of output and result indicators.

#### EX-ANTE CONDITIONALITIES

- 5.123 Ex ante conditionality 4.1 is that: 'actions have been carried out to promote cost-effective improvements of energy end use efficiency and cost effective investment in energy efficiency when constructing or renovating buildings'. There are four criteria for fulfilment of this conditionality:

- Measures to ensure minimum requirements are in place related to the energy performance of buildings consistent with Article 3, Article 4 and Article 5 of Directive 2010/31/EU.
- Measures necessary to establish a system of certification of the energy performance of buildings consistent with Article 11 of Directive 2010/31/EU.
- Measures to ensure strategic planning on energy efficiency, consistent with Art 3 of Directive 2012/27/EU.
- Measures consistent with art. 13 of Directive 2006/32/EC on energy end use efficiency and energy services to ensure the provision to final customers of individual meters in so far as it is technically possible, financially reasonable and proportionate in relation to the potential energy savings.

5.124 The OP highlights that all of these criteria have been met, however there appear to be minor gaps remaining:

- The first is met by building regulations, which it is assumed are in line with the detailed ex-ante criteria set out. The response to this ex-ante conditionality however does not set out a list of measures already adopted to improve energy efficiency in buildings, as required.
- The fourth does not appear to be fully met at this stage, although it is recognised that a smart metering plan has been developed.

5.125 Ex ante conditionality 4.2 is that: ‘actions have been carried out to promote high-efficiency co-generation of heat and power’, where the member state is looking to allocate funding to this area. These actions are:

- Support for co-generation is based on useful heat demand and primary energy savings consistent with Article 7.1 and 9.1. (a) and (b) of Directive 2004/8/EC.
- Member States or their competent bodies have evaluated the existing legislative and regulatory framework with regard to authorisation procedures or other procedures in order to:
  - a) encourage the design of co-generation units to match economically justifiable demands for useful heat output and avoid production of more heat than useful heat; and
  - b) reduce the regulatory and nonregulatory barriers to an increase in cogeneration.

5.126 The OP suggests ex-ante conditionality 4.2 is not applicable. Under SO3 however there is reference to combined heat and power as an indicative activity, which suggests that this conditionality does require a response.

5.127 Ex ante conditionality 4.3 is that: ‘Actions have been carried out to promote the production and distribution of renewable energy sources’ where the member state is looking to allocate funding to this area. There are two criteria for fulfilment of this conditionality:

- Transparent support schemes, priority in grid access or guaranteed access and priority in dispatching, as well as standard rules relating to the bearing and sharing of costs of technical adaptations which have been made public are in place consistent with Article 14 (1) Article 16 (2) and 16 (3) of Directive 2009/28/EC.
- A Member State has adopted a national renewable energy action plan consistent with Article 4 of Directive 2009/28/EC.

5.128 The OP highlights that both of these criteria have been met. The responses appear to meet the criteria, however it is slightly unclear in this draft as the response to the second criteria appears to have a response relevant to CHP (ex ante conditionality 4.2) followed by a response to the first criterion of this ex-ante conditionality. These responses need to be reviewed.

### Main Remaining Issues

5.129 The key issues to be resolved are:

- Review development needs for each Investment Priority, to ensure that the focus and narrative of the priority axis is suitably targeted towards environmental objectives first, and economic objectives second, and strengthening the clarity of development needs at a more detailed level (as set out in the individual SO sections above)
- Resolve the issue of overlapping indicative activities across priority axes, and the split between R&D and innovation in Priority Axes 1 and 4, and waste reduction activities between Priority Axes 4 and 6.
- Further develop and refine indicative activities list under each SO, to ensure each provides a clear, coherent set of activities, that demonstrate where investment will be prioritised to achieve greatest impact
- Review and refine the output and result indicators, as outlined above
- Develop quantification of output and result indicators across all Investment Priorities.

Review the need to respond to ex-ante conditionality 4.2 and review minor remaining gaps / issues in evidence provision for conditionalities 4.1 and 4.3.

## Priority Axis 5 Climate Change

### Focus of the Priority

5.130 Priority Axis 5 covers promotion of climate change adaptation, risk prevention and management. Across England this priority axis is focused primarily on reducing flood risk and the associated economic blight that it can bring, with respect to economic sites remaining undeveloped due to flood risk, and businesses exiting areas which have experienced flood damage and face potential future flooding.

5.131 There is one specific objective and corresponding investment priority under this priority axis.

**Table 5.9 Investment Priorities and Specific Objectives**

Investment Priorities	Specific Objectives
Investment Priority 1: Enabling and Protecting Economic Development Potential through Investment in Flood and Coastal Flooding Management where there is Demonstrable Market Failure	Specific Objective 1: Enabling and protecting economic development potential through investment in flood and coastal flooding management where there is demonstrable market failure



## Feedback Provided to DCLG and their Response

5.132 The table below provides a summary of the feedback provided to CLG so far and its response. The initial feedback provided to CLG was based on the initial drafts of the intervention logic provided to the ex-ante evaluation team. A second set of comments were issued following receipt of the OP Draft dated 18<sup>th</sup> June 2014.

**Table 5.10 Feedback and Response for Priority Axis Five**

Feedback provided prior to OP Draft dated 18 <sup>th</sup> June, 2014	
Feedback	Response in Current OP
Earlier drafting had a stronger focus on coastal erosion, which was seen as lower priority to flood risk, and it was recommended that the latter be the principal focus	The OP now focuses on flooding and coastal flooding, helping it to better focus on economic development benefits and supporting employment sites
Focus on protecting employment sites needed to be articulated more clearly	This is now clearly articulated in the OP narrative for this priority axis
The result indicator needed refinement to capture the area of flood risk protected and the scale of employment sites within this area	This result indicator has been developed to seek to capture this outcome, however further refinement may still be required
Activity areas needed to be clearly specified, including whether this will be purely capital spend under this TO, or whether there is also a revenue element eg advice to businesses around flood risk	Indicative activities are now more clearly defined and include both capital and revenue activities
Specific Objective 1 – feedback provided in response to OP Draft dated 18th June, 2014	
Amendments to the indicative activities may be needed to ensure they fully align with the SO, for example it is not clear how carbon sequestration, or physical environmental enhancements would contribute to flood risk management, so these need to either be clarified or removed	Not addressed
An overview of the methodology for identifying and prioritising sites for investment under this SO should be set out in the narrative	Not addressed
The output indicators should be reviewed, as it is not clear that enterprises assisted or employment creation would be an outcome of investment in this SO	Not addressed
Further clarification of the methodology and baseline for the result indicator(s) is needed. At present the UKPA, OP and intervention logic all show slightly different definitions of the result indicator. It is unclear whether the result indicator set out in the OP at present (10-year discounted additional GVA) will adequately capture the beneficial impact of intervention in this area. More detail is needed on this to be able to judge its adequacy	A second result indicator has been included which would strengthen measurement of this SO. However further clarification issue has not been addressed
Output and result targets require quantification	Not addressed (result target is indicatively shown but highlighted as currently being refined)

5.133 As there is only one investment priority for this priority axis, the analysis is simply summarised in the summary sections below.

## Summary

### Consistency with Policy and Socio-Economic Analysis

- 5.134 The focus of this priority axis on flood risk management to protect economic development is consistent with the policy and socio-economic analysis undertaken, in particular the 2012 UK Climate Change Risk Assessment identifying flood risk as the most significant and specific climate challenge faced by the UK.
- 5.135 While Government policy is primarily focused on domestic property protection, the OP sensibly proposes to complement this by focusing ESI funds on protecting employment sites.
- 5.136 The UKPA usefully sets out a map of the areas seeking to make investments in flood risk and coastal flooding management, helping to demonstrate the geographic focus for investments in this priority axis, which is primarily in areas of the North and Midlands where market failure is more acute.
- 5.137 The rationale for the value of investment made in this area is less clear however. With no minimum allocation requirement, there should be a clear explanation of why investment in this priority axis was prioritised over larger scale investment in other priority axes, and this is currently not made clear in the OP.

### Coherence between Thematic Objectives / Priorities

- 5.138 This investment priority has deliberately focused on one investment priority and objective, providing internal coherence.
- 5.139 The nature of the specific objective does not strongly overlap with other objectives, but should complement these investments, in particular those around brownfield remediation to support employment land development in Priority Axis 6.
- 5.140 Overall coherence is therefore strong for this priority axis.

### Adequacy of the Intervention Logic

- 5.141 The intervention logic is broadly clear, however, there are a number of areas where it could be strengthened. These include:
- Amendments to the indicative activities may be needed to ensure they fully align with the SO, for example it is not clear how carbon sequestration, or physical environmental enhancements would contribute to flood risk management, so these need to either be clarified or removed.
  - An overview of the methodology for identifying and prioritising sites for investment under this SO should be set out in the narrative.
  - The output indicators should be reviewed, as it is not clear that enterprises assisted or employment creation would be a direct outcome of investment in this SO. It may be appropriate to introduce a programme specific indicator to capture the more targeted output from investment, of land protected from flood risk.
  - Further clarification of the methodology and baseline for the result indicators is needed. More detail is needed on these to be able to judge their adequacy.
  - Quantification of output and result indicators is needed.

## EX-ANTE CONDITIONALITIES

5.142 Ex-ante conditionality 5.1 is for: ‘The existence of national or regional risk assessments for disaster management taking into account climate change adaptation. A national or regional risk assessment with the following elements shall be in place:

- A description of the process, methodology, methods and nonsensitive data used for risk assessment as well as of the risk based criteria for the prioritisation of investment
- A description of single-risk and multi-risk scenarios
- Taking into account, where appropriate, national climate change adaptation strategies’

5.143 The OP highlights that this ex-ante conditionality has been met, and sets out a series of key documents and narrative which supports this position.

### Main Remaining Issues

5.144 The key issues to be resolved are:

- Provide a clearer statement about how areas at risk will be assessed and prioritised
- More clearly define a number of the proposed actions
- Review and refine the result indicator
- Develop quantification of output and result indicators.

## Priority Axis 6: Protecting the Environment

### Focus of the Priority Axis

5.145 Priority Axis 6 covers preserving and protecting the environment and promoting resource efficiency. The aim of this priority axis is to help in decoupling economic growth from resource use and help to turn environmental challenges into growth opportunities. This work relates to a wide range of factors, including protecting water resources, supporting waste prevention and treatment, halting the loss of biodiversity and degradation of ecosystems, protection and sustainable use of soil resources and providing cleaner air.

5.146 Across England there are two specific objectives, each of which relates to a single investment priority.

Table 5.11 Investment Priorities and Specific Objectives

Investment Priorities	Specific Objectives
Investment Priority 1: Protecting and Restoring Biodiversity and Soil and Promoting Ecosystem Services, including through Natura 2000 and Green Infrastructure	Specific Objective 1: Investment in green and blue infrastructure and actions that support the provision of ecosystem services on which businesses and communities depend on increase local natural capital and support sustainable economic growth
Investment Priority 2: Promoting Innovative Technologies to improve Environmental Protection and Resource Efficiency in the Waste Sector, Water Sector and with Regard to Soil, or to Reduce Air Pollution.	Specific Objective 2: Investment in the uptake of innovative technologies and resource efficiency measures to increase environmental protection, resilience and performance of businesses and communities

### Feedback Provided to DCLG and their Response

5.147 The table below provides a summary of the feedback provided to CLG so far and its response. The initial feedback provided to CLG was based on the initial drafts of the intervention logic provided to the ex-ante evaluation team. No comments were issued following receipt of the OP Draft dated 18<sup>th</sup> June 2014, given the more substantial development work still required at the stage of that review.

**Table 5.12 Feedback and Response for Priority Axis Six**

Feedback provided prior to OP Draft dated 18 <sup>th</sup> June, 2014	
Feedback	Response in Current OP
Development needs required clearer articulation and prioritisation, as activities are currently cited across a broad range of areas, including business resource efficiency, green infrastructure, brownfield reclamation, walking and cycling routes public realm investment.	The OP is now much clearer in its structuring of this priority axis, with two main investment priorities relating to land remediation and supporting businesses and communities through environmental protection measures.
Consideration needs to be given to whether job outputs can be captured as a result of interventions eg land management jobs, tourism jobs etc.	Jobs targets have not been included as an output target for this investment priority

### Review of the Priority Axis

5.148 A detailed analysis of the current draft TO on an Investment Priority by Investment Priority basis is provided below.

#### SPECIFIC OBJECTIVE 1: INVESTMENT IN GREEN AND BLUE INFRASTRUCTURE

5.149 The UKPA clearly highlights the range of economic benefits that can be delivered through investment in green infrastructure and environmental protection and enhancement, including supporting local inward investment, increasing local visitor spend, reducing the costs of adverse environmental conditions, providing health benefits and generating employment. These primarily economic goals however are set out alongside environmental aims including enhancing biodiversity and water, soil and air quality. Overall this fails to give clarity as to what the driving force for intervention in this SO is.

5.150 Similarly, the list of indicative interventions fails to set out a clear and coherent set of interventions. As such, it is not possible to get a clear view of how investment will be used under this SO to target improvement across the broad ranging topic which the investment priority covers. More work is needed to clarify and prioritise the indicative activities under this SO.

5.151 The first indicative activity refers to 'priority sites', but needs to also make clear what these priority sites are or how they will be identified.

5.152 The result indicator is unclear, and there is no explanation regarding the baseline or methodology for how this will be measured.

5.153 The output targets selected include enterprise support but it is not clear which activities would provide direct support to enterprises. These indicators should be reviewed in line with any updates to the set of indicative activities and require quantification.

#### SPECIFIC OBJECTIVE 2: INVESTMENT IN THE UPTAKE OF INNOVATIVE TECHNOLOGIES AND RESOURCE EFFICIENCY

5.154 The OP sets out a relatively clear rationale for investment in resource efficiency measures both to support reduced waste and resource use, and at the same time

reduce business costs, and create new market opportunities in the low carbon and environmental goods and services sector.

- 5.155 As with SO1, the list of indicative interventions fails to set out a clear and coherent set of interventions and a clear view of how investment will be used under this SO to target improvement. More work is needed to clarify and prioritise the indicative activities under this SO.
- 5.156 The result indicator is unclear, and there is no explanation regarding the baseline or methodology for how this will be measured.
- 5.157 The output targets appear broadly sensible, however should be reviewed in line with any updates to the set of indicative activities and require quantification.

## Summary

### CONSISTENCY WITH POLICY AND SOCIO-ECONOMIC ANALYSIS

- 5.158 The potential scope of this priority axis is extensive, covering aspects of environmental protection, biodiversity, air quality, water quality, soil quality, landscape and historic environments and resource efficiency. The national policy and socio-economic context for this is well summarised in the UKPA and highlight a number of significant challenges for England. While the two investment priorities show consistency with the aim of this priority axis by focusing on areas where there is a dual opportunity for environmental protection and improvement, alongside economic growth, much more could be done to articulate how the investment priorities and the indicative actions under these specifically respond to the environmental needs with respect to biodiversity, waste reduction, water quality etc, and whether it is these, or the economic benefits that are the main objectives of investment under this priority axis.
- 5.159 Overall the case for investment in this priority axis and the primary changes that this is seeking to deliver are not sufficiently clear in the OP.
- 5.160 The rationale for the allocation of ERDF to this priority is also unclear. With no minimum allocation requirement, there should be a clear explanation of why investment in this priority axis was prioritised over larger scale investment in other priority axes, and this is currently not made clear in the OP.

### COHERENCE BETWEEN THEMATIC OBJECTIVES / PRIORITIES

- 5.161 The priority axis is sensibly broken down into two complementary investment priorities – one focused on development of brownfield sites and green infrastructure, and the other focused on supporting businesses and related resource efficiency. This gives the priority axis a useful framework.
- 5.162 The nature of the investment priority does not strongly overlap with other investment priorities, but should complement these investments, in particular those around low carbon business support under Priority Axis 4 and supporting site development as part of climate change mitigation under Priority Axis 5. The OP would benefit however from removing certain areas of duplication across priority axes however, for example references to waste reduction activities under PA4, when this more naturally sits under PA6.
- 5.163 It would furthermore be useful to make reference to the linkages between activities under this Priority Axis and those under the SUD in Priority Axis 10, for which a further £12m is available to support activities that link to this priority axis.

5.164 Overall coherence is therefore reasonable within this priority axis, however more needs to be done to clarify the distinction with activities under other priority axes, particularly PA4 and PA10.

#### ADEQUACY OF THE INTERVENTION LOGIC

5.165 The overall intervention logic at present has a number of weaknesses, including a lack of overall clarity on:

- the overall outcomes that this priority axis will deliver (whether economic or environmental)
- the detailed nature of the types of interventions to be delivered and how they will be targeted to maximise benefit from this investment
- how priority sites under SO1 would be identified and prioritised for investment
- the baseline and methodology for measuring the result indicators.

#### EX-ANTE CONDITIONALITIES

5.166 Ex-ante conditionality 6.1 is that: 'The existence of a) a water pricing policy which provides adequate incentives for users to use water resources efficiently and b) an adequate contribution of the different water uses to the recovery of the costs of water services at a rate determined in the approved river basin management plan for investment supported by the programmes'.

5.167 This conditionality only applies at the level of the investment priority/specific objective. The OP highlights that this is not applicable and on the basis that none of the IPs / SOs specifically focus on water management this appears to be appropriate.

5.168 Ex-ante conditionality 6.2 is: 'Promoting economically and environmentally sustainable investments in the waste sector particularly by the development of waste management plans consistent with Directive 2008/98/EC on waste, and with the waste hierarchy'. A response is required if the member state is planning to invest in the waste sector. The criteria for fulfilment of this conditionality are:

- A report has been submitted to the Commission on progress towards targets of Article 11 of Directive 2008/98/EC and intended actions to meet the targets.
- The existence of one or more waste management plans as required by Article 28 of Directive 2008/98/EC.
- A Member State has established, consistent with Articles 1 and 4 of Directive 2008/98/EC, waste prevention programmes, as required by Article 29 of the Directive.
- Necessary measures to achieve the target on re-use and recycling by 2020 consistent with Article 11.2 of Directive 2008/98/EC have been adopted.

5.169 The OP highlights that this conditionality is not applicable. Under SO2 however there is reference to waste management and reduction as an indicative activity, which suggests that this conditionality does require a response.

#### MAIN REMAINING ISSUES

5.170 The key issues to be resolved are:

- Refining the narrative, particularly the description of investment priorities and their indicative activities to provide greater clarity around how investment under this priority axis will deliver the intended economic and environmental targets

(we understand from our discussions with CLG, that the priority axis is being amended to address this point).

- Developing the set of indicative activities to provide a clear, coherent and targeted set of interventions
- Reviewing and quantifying the outputs to be delivered under this priority axis
- Clarify the baseline and methodology for the result indicators for both investment priorities and quantify the results targets
- Update the intervention logic to ensure consistency with the narrative of the OP
- Review the need to respond to ex-ante conditionality 6.2.

## Priority Axis 7: Sustainable Transport in Cornwall/Scilly Isles

### Focus of the Priority Axis

- 5.171 The Promoting Sustainable Transport thematic objective (TO7) is addressed in both Priority Axis 7 and 8 of the England ERDF programme. However, Priority Axis 7 focuses specifically on Cornwall and the Isles of Scilly as it is England's only less developed region and therefore has a degree of greater freedom over how transport investment can be spent.
- 5.172 This priority axis includes two specific objectives across two investment priorities, as shown in the table below.

**Table 5.13 Investment Priorities and Specific Objectives in Priority Axis 7**

Investment Priorities	Specific Objectives
IP1. Supporting a multimodal Single European Transport Area by investing in the TEN-T	SO1. Improve the accessibility of Cornwall by enhancing integration with the TEN-T road and rail network.
IP2. Developing and improving environmentally friendly and low carbon transport systems, including inland waterways and maritime transport, ports multimodal links and airport infrastructure, in order to promote sustainable regional and local mobility	SO2. Improve accessibility and connectivity within Cornwall and the Isles of Scilly through developing sustainable means of transport

### Previous Feedback Provided and the Response

- 5.173 The only feedback provided for this priority axis was in response to the OP Draft dated 18<sup>th</sup> June 2014. Prior to this, the ex-ante evaluation team had only been provided with one draft of the intervention logic which was for England as a whole, as well as being at a very early stage of development.

**Table 5.14 Feedback and Response for Priority Axis 7**

Specific Objective 1: feedback provided in response to OP Draft dated 18 <sup>th</sup> June, 2014	
Feedback	Response in Current OP
Amend the rationale, focusing on the need to improve connectivity of Cornwall to rest of UK/Europe and a greater focus on TEN-T network	There is a much greater focus on the TEN-T network and the economic costs imposed by Cornwall's poor connectivity to the rest of the UK and Europe.
Provide more specific actions which address areas for improvement on the TEN-T network	These actions are now much more specific to the areas in need of improvement on the TEN-T network

Provide a more detailed description of how investments will be prioritised.	Provides more description of the criteria that projects will need to meet, but states that the PMC will approve the full set of criteria and will have ultimate responsibility for the prioritisation of operations.
Include greater references to existing local strategies which identify the key transport priorities for Cornwall and Isles of Scilly	The Priority Axis does not explicitly reference local strategies, but it is far more specific in terms of local transport priorities.
Change result and output indicators as the meaning and usefulness of the current indicators is unclear.	Results are the same as before, but the text has now clarified that they can apply to both the rail and road network. It is unclear whether 'congestion' can apply to the rail network. All of the output indicators are now relevant to the Priority Axis.
Specific Objective 2 and 3 (now merged with Specific Objective 2): feedback provided in response to OP Draft dated 18 <sup>th</sup> June, 2014	
Provide detailed rationale for SO2 and SO3 as the current descriptions are too generic.	It is still our view that this specific objective is not focused enough. The rationale has been changed slightly but still appears to be providing the justification for a broad range of transport investment.
Provide a more detailed description of how investments will be prioritised.	The text is the same as for SO1. Provides more description of the criteria that projects will need to meet, but states that the PMC will approve the full set of criteria and will have ultimate responsibility for the prioritisation of operations.
Consider merging of SO2 and SO3	These have been merged in line with the request.
Include greater references to existing local strategies which identify the key transport priorities for Cornwall and Isles of Scilly	There are no references to local strategies, which could help to provide the framework for prioritisation of this very broad specific objective.
Change result and output indicators as the meaning and usefulness of the current indicators is unclear.	The result indicator is still an "increase in passenger numbers" but does not state what form of public transport this relates to or how it could be measured. The outputs are now more relevant to the activity being proposed.

## Review of Priority Axis

### Specific Objective One

- 5.174 The changes made to this Priority Axis have addressed most of the issues raised in our initial review. It is now much clearer that the focus of investment will be the TEN-T network in Cornwall and identifies the key constraints and bottlenecks in the network that will need to be addressed, and the economic costs that these impose. The only remaining concern is the reference to the Atlantic Action Plan which includes a priority to improve connectivity and accessibility for peripheral, coastal areas, including their links with inland areas. The text should clarify that investments to improve connections to these areas would only be on the TEN-T network and would not be improving links to the TEN-T network which is covered by a separate investment priority (7b).
- 5.175 The indicative actions are specific and consistent with the investment priority, as well as the EC priority for investing in the TEN-T network. These also include actions specific to the rail network which has helped to reduce the dominance of road investment which was noted in the previous draft. However the financial allocations



table appears to be incomplete, as there is no allocation for investment in the TEN-T rail network.

- 5.176 The guiding principles section now provides further detail on the framework for prioritising investments. It sets out a number of criteria that investments would need to address (addressing significant bottlenecks, leverage of additional private sector investment etc). It states that the Programme Monitoring Committee will approve the full criteria for selection of projects in due course and that a Local Sub-Committee will determine the prioritisation of operations. This is acceptable given that the rest of the specific objective is now far more focused in what it is trying to achieve.
- 5.177 The output and result indicators have all been revised. There are two result indicators identified in the table (reduction in traffic congestion and reduction in travel time). However the text indicates that results will be measured on a scheme by scheme basis, and that each investment should aim for a 10% change in one of a number of measures (travel time, congestion level, increase in passenger numbers), depending on the mode of transport. It may help if the table identified one result indicator for rail and one for road, but the text explained that there is some flexibility in what precise measure is used. The output indicators now show a much better fit with the activities being proposed.

#### Specific Objective Two

- 5.178 The initial draft of the OP dated 18<sup>th</sup> June 2014 included two specific objectives focused on improving the internal connectivity of Cornwall and the Isle of Scilly respectively. These have now been merged in line with the comments provided on the initial review.
- 5.179 The specific objective is still very broad, and the rationale section includes references to many different challenges or opportunities; it is unclear what the key priority is that it is seeking to address. It includes references to reducing costs for exporters accessing markets, attracting inward investment, improving access to employment, unlocking key employment sites, supporting growth of key sectors etc. These are in addition to the environmental objectives for reducing car use and encouraging more sustainable forms of transport or use of alternative fuels. The environmental objectives are arguably equally important aspects of the investment priority, but are somewhat lost among the many economic challenges that this specific objective is seeking to address.
- 5.180 The text for the rationale still includes the statement that ERDF “can play an important role by investing in network resilience infrastructure (and so address adverse weather conditions), and solutions to address bottlenecks of connectivity problems as well as gaps in connectivity where transport infrastructure can enable the development of key employment sites, TEN T transport hubs (such as airports) and unlock the flow of goods and services in peripheral territories”. It is not clear what this means, and it appears that it has been included to retain maximum flexibility in what can be funded under this specific objective.
- 5.181 The financial allocations table show that there is a maximum of £23m available for this specific objective. With such a limited pot of funding and a focus only on Cornwall and the Isles of Scilly, it should be possible to be far more specific about the key priorities. This specific objective still does not include any references to existing transport

strategies in Cornwall, which could help to identify specific schemes and act as a framework for prioritising investments.

- 5.182 The OP identifies one result indicator (increase in passenger numbers) but does not provide any explanation of why this has been selected or what types of public transport it refers to. SO2 should include a result indicator related to reduced GHG emissions given the environmental focus of this investment priority and SO, although it has been included as an output indicator.
- 5.183 All of the output indicators selected are related to environmental sustainability (GHG reductions, alternative fuel charging points and new cycleways). It is not clear how these follow from the preceding text which identifies multiple economic objectives.

## Summary

- 5.184 Conclusions have been drawn for the priority axis as a whole in relation to the key ex-ante evaluation tests. These are as follows:

### Consistency with Policy

- 5.185 The actions identified under Specific Objective one of Priority Seven are largely consistent with EU policy to focus structural funds capital investment on the TEN-T network. There is a clear lack of consistency with local transport strategies for Cornwall and the Isles of Scilly and the priority axis has been drafted without sufficient reference to these documents which identify the key priorities for transport investment.

### Consistency with socio-economic challenges and opportunities

- 5.186 SO1 is now very focused on the key development needs of Cornwall and the Isles of Scilly. SO2 is still very broad. Although it does identify the main, broad challenges for Cornwall and the Isles of Scilly, much of the text is still fairly generic, and it needs to be far more focused in terms of the specific priorities that it is seeking to address.

### Coherence

- 5.187 There is still a question over whether SO1 is proposing investments which will provide regional links in to the TEN-T network, however this activity should be funded under a separate investment priority (7b) which has not been included here. However the rest of our concerns about the coherence of this Priority Axis (eg the separating out of IP2 in to two specific objectives) has now been addressed.

### Adequacy of the intervention logic

- 5.188 The intervention logic for this priority axis requires further attention. The key issue is that the challenges and opportunities faced by Cornwall and the Isles of Scilly are only articulated in very general terms. There should be greater reference to existing local strategies which have identified the specific priorities and can therefore provide the rationale for intervention.

### Ex-ante conditionalities

- 5.189 The conditionalities for transport relate to the existence of a comprehensive transport plan, which includes specific sections for different types of transport infrastructure and which set out how they will improve connectivity to the TEN-T network. The OP document notes that there are national plans for the two modes of transport (road and

rail) which are responsible for the greatest level of public investment. Section 108 of the Local Transport Act 2000 also requires all Local Transport Authorities to prepare and maintain a Local Transport Plan. All of the local authorities in the transition areas covered by this priority axis have Local Transport Plans which include the routes connected to the TEN-T network, although the TEN-T routes are not explicitly named. Based on this, it is considered that the OP meets the ex-ante conditionalities.

#### Remaining Issues to be addressed

- In SO1, clarify that the investments being proposed to connect peripheral, coastal settlements does actually refer to the actual TEN-T network and not roads which links these settlements to the TEN-T network.
- Revisit the financial allocations table and include a specific allocation for investment in the TEN-T rail network.
- In SO1, amend the results table so that it has one result indicator for rail investments and one for road investments.
- For SO2, revisit the rationale and actions and ensure that these identify the specific priorities for Cornwall and the Isles of Scilly.
- Include greater references to the existing local strategies which identify the key transport priorities for Cornwall and the Isles of Scilly. This includes the Connecting Cornwall strategy and the Transport Annex of the Strategic Economic Plan. Reference to these strategies would allow PA7 to be more focused and would improve the consistency with policy and the key socio-economic challenges.

## Priority Axis 8: Sustainable Transport in the Rest England

### Coverage of the Priority Axis

5.190 PA8 covers sustainable transport investments in the rest of England (excluding Cornwall and the Isles of Scilly). The revised draft covers only transition areas. The priority axis includes specific objectives which each relate to an investment priority. The first SO is concerned with improving connections to the TEN-T network; the strategic infrastructure network which connects Europe. The second investment priority focuses on delivering more environmentally sustainable forms of transport.

**Table 5.14 Investment Priorities and Specific Objectives in Priority Axis 8**

Investment Priorities	Specific Objectives
IP1. Enhancing regional mobility by connecting secondary and tertiary nodes to TEN-T infrastructure, including multimodal nodes	SO1. Improving regional mobility and the economic viability of areas by linking them to the TEN-T network with transport infrastructure.
IP2. Developing and improving environmentally-friendly (including low-noise) and low-carbon transport systems, including inland waterways and maritime transport, ports, multimodal links and airport infrastructure, in order to promote sustainable regional and local mobility	SO2. To remove pressure from road networks by promoting other forms of transport that support sustainable development, jobs and growth.

## Feedback Provided to DCLG and their Response

5.191 The only feedback provided for this priority axis was in response to the OP Draft dated 18<sup>th</sup> June, 2014.

Table 5.15 Feedback and Response for Priority Axis 8	
Specific Objective 1 – feedback provided in response to OP Draft dated 18th June, 2014	
Feedback	Response
Provide greater reassurance that all investments are focused on improving connections to the TEN-T network	The OP states clearly that investments will all be focused on improving connections to the TEN-T network
Provide more detail about the transport investments being proposed for more developed areas and the rationale for investment	The revised draft now only applies to transition areas. References to more developed areas have been removed.
Provide more detail on the framework for assessing and prioritising investments, given the limited pot of funding available for transport investment.	The priority axis states that the Programme Monitoring Committee will in due course approve criteria for selection of projects.
Provide greater justification for focus on road investment at the expense of other forms of transport	The priority axis does not provide any justification for the continued focus on investment in roads.
Specific Objective 2 – feedback provided in response to OP Draft dated 18 <sup>th</sup> June 2014	
Provide a more detailed explanation of the types of challenges and opportunities that this SO is responding to, as the current text is too generic	The description of development needs has changed very little and is still too generic.
Distinguish between actions for more developed and transition areas	The revised draft now only applies to transition areas. References to more developed areas have been removed.
Provide more detail on the process for assessing and prioritising investments, given the limited pot of funding available for transport investment.	The priority axis states that the Programme Monitoring Committee will approve criteria for selection of projects in due course.
Revise outputs so they are more related to the types of activity that would be funded	The list of outputs has been revised and is now more appropriate to the activities being proposed. However these still do not reflect the scope of activity that could be funded.
Provide more detail about what type of public transport the result indicator refers to (“increase in passenger numbers” is non-specific). Also consider the addition of another result indicator focused on reducing CHG emissions.	There is still only one result indicator relating to an increase in passenger numbers. The text now states that this includes all forms of public transport, and also includes walking and cycling. It is not clear how this would be measured. The preceding text indicates that this SO will lead to a reduction in carbon emissions but still does not identify this as a result indicator.

## Review of the Priority Axis

### Specific Objective One – Improving Economic Viability

5.192 DCLG has responded to a number of the concerns raised in relation to the initial draft of this priority axis. It has responded to our concerns about transport investment in more developed areas by removing them from the scope of the priority axis and focusing only on transition areas. This is likely to provide reassurance to the Commission.

5.193 We also highlighted the need for a clearer framework for assessing and prioritising investments, given the limited pot of funding. The revised draft still does not provide

any specific criteria that projects would need to meet, but does note that the PMC will confirm these criteria “in due course”. This should be done before submission of the OP to the Commission as the current draft suggests any investments which connect to the TEN-T network could be funded.

- 5.194 Investments in this priority axis need to demonstrate that they are connecting secondary and tertiary nodes to the TEN-T network. This is reflected in the indicative actions, which are all related to improving connections to TEN-T. As stated in our comments on the previous draft, it would reinforce the consistency with the investment priority if the rationale section could provide more detail about the examples cited in Merseyside and Lincolnshire, and provide reassurance that these are all focused on improving connections to the TEN-T network.
- 5.195 The revised draft has retained its focus on investment in roads. The outputs all relate to investment in roads, and the results indicators both relate to reductions in road traffic and travel time on roads. This focus on roads does not come through in the rationale section or the indicative actions, one of which is focused on investment in interchanges and making use of multi-modal opportunities. The selection of these outputs and results indicators is likely to skew the focus of investment towards roads at the expense of other forms of infrastructure and needs to be better justified. The rationale section also needs to provide a stronger justification for why this is the focus for investment.

#### Specific Objective 2 – Sustainable Transport Links

- 5.196 There has been very little change to SO2 since the initial draft. The specific objective is still very broad and does not give any indication of what economic or environmental objectives it is seeking to address by removing pressure from the road network. The accompanying rationale is still very generic and does not give any indication of the challenges it is responding to or the types of interventions being proposed: “appropriately targeted multi-modal investments can address peripheral geographic development needs in order to improve economic viability, increase mobility and better link employment sites/opportunities to residential locations”.
- 5.197 As with Priority Axis 7, it appears that the specific objective has been designed with maximum flexibility in mind, and gives the impression that any type of transport investment deemed to be sustainable could be funded. With only £24m to spend across all transition areas, SO2 needs to be far more specific about the key priorities and the framework for prioritising investment. As this Priority Axis has been based on a limited number of ESIF strategies, we see no reason why it cannot be more specific in terms of what it will fund.
- 5.198 As stated in our previous comments, the OP would present a much stronger rationale for intervention if it could give an indication of the different types of challenges that this SO could address in different parts of the country, supported by evidence wherever possible. For urban areas this could relate to the economic costs from congestion, while in rural areas it could relate to the poor public transport services which results in high levels of car use and restricts access to employment for lower skilled workers. There are also opportunities that are likely to apply across the country, such as encouraging cycling/walking. As with IP1, the text should cite examples of different groups of LEPs that have identified these as key issues in their ESIF strategies. This would make the OP a more readable document but would also provide a greater read-

through to the indicative actions which identify a number of congestion alleviation measures, public transport improvements and measures to encourage cycling.

5.199 The rationale section also contains a number of statements which are not very clear and are not supported with any evidence. These include:

- “This will stimulate increased numbers of businesses locations and development in response to growth in local economies and a reduction in carbon emissions.”
- “Whilst small in financial scale, such developments have the potential to promote major new investment, including inward investment, and logistics investment where linked to rail and waterways investment locations.”

5.200 The rationale section should be redrafted so that it is clear what types of interventions these refer to and what evidence it is drawing upon. The evidence for the impact of transport investments is highly context-specific so it is important that the text provides greater clarity.

5.201 The outputs now include an additional output related to “total length of new cycle ways”, in addition to:

- total length of new or improved tram/metro lines
- total length of new or improved inland waterways.

5.202 We accept that the list of output indicators agreed by CLG does not leave much flexibility for transport investments. However, we would argue that these outputs do not reflect the range of activity which could be funded under this SO, as suggested by the list of indicative actions. The second two outputs both relate to specialised activity which are only likely to be funded in specific areas with a tram system or inland waterway.

5.203 The result indicator for this SO is an increase in passenger numbers. The OP indicates that this could apply to all forms of public transport, and also includes walking and cycling. It is not clear how this would be measured and CLG should give strong consideration to an alternative indicator, perhaps related to car use. Given the environmental focus of this SO, it should also aim to be reducing CHG emissions. This is acknowledged in the text but is not included as a result indicator.

## Summary

5.204 Conclusions have been drawn for the priority axis as a whole in relation to the key ex-ante evaluation tests. These are as follows:

### Consistency with Policy

5.205 The specific objectives and actions identified for PA8 are largely consistent with EU policy to focus investment on improving access to the TEN-T network. This could be reinforced if it was confirmed that the examples given in the rationale section have prioritised connections to the TEN-T network rather than other local connections. The OP does not demonstrate its fit with national transport strategies, however there is no single transport strategy for England. Separate strategies are in place for different areas of investment, such as road improvements and improving access to public transport. PA8 appears to be broadly consistent with these strategies.

### Consistency with socio-economic challenges and opportunities

- 5.206 It would be challenging for PA8 to demonstrate that it is responding to all of the key development needs related to transport as these vary considerably. Nevertheless, the text could provide firmer examples and evidence of the types of problems that is seeking to address (e.g. congestion, access to employment in rural areas). This would ensure there is greater consistency between the indicative actions and the key development needs.

### Coherence

- 5.207 This priority axis is internally coherent. There does not appear to be any overlap between the activities, outputs and results indicators of the two specific objectives or with activity being delivered under a different priority axis.

### Adequacy of the intervention logic

- 5.208 The intervention logic for this priority axis requires further attention. As stated above, the text should provide more detail about the types of challenges that this priority axis is seeking to address. This should be supported with evidence and examples of LEPs experiencing these challenges. This would ensure there is a logical and evidence based link between the development needs and the indicative actions.

### Ex-ante conditionalities

- 5.209 The conditionalities for transport relate to the existence of a comprehensive transport plan, which includes specific sections for different types of transport infrastructure and which set out how they will improve connectivity to the TEN-T network. The OP document notes that there are national plans for the two modes of transport (road and rail) which are responsible for the greatest level of public investment. Section 108 of the Local Transport Act 2000 also requires all Local Transport Authorities to prepare and maintain a Local Transport Plan. All of the local authorities in the transition areas covered by this priority axis have Local Transport Plans which include the routes connected to the TEN-T network, although the TEN-T routes are not explicitly named. Based on this, it is considered that the OP meets the ex-ante conditionalities.

### Remaining Issues to Address

- Provide rationale for the focus on road investment in SO1. The results and output indicators should also be revisited to ensure they reflect a broader range of activity than just investment in roads.
- Provide a much clearer description of the rationale and different types of challenges that SO2 could address in different parts of the country, supported by evidence wherever possible. Without this clarity around the rationale, it is not readily apparent what added value the SO will bring to the programme.
- Expand list of outputs for SO2 to ensure that they reflect the range of activity which could be funded.
- Select an alternative result indicator for SO2 which is easier to measure than an “increase in passenger numbers”. The National Transport Survey includes a number of measures which may be more appropriate, such as the proportion of trips made by car.

- Consider inclusion of an additional indicator related to a reduction in CHG emissions.
- For both priorities, provide a more detailed description of how investments will be assessed and prioritised once the criteria have been defined by the PMC

## Priority Axis 9: Promoting Social Inclusion

### Coverage of Priority Axis

5.210 Priority Axis 9 covers Thematic Objective 9. The PA includes just one investment priority, focused on the development of community led local development strategies. Within this IP, the OP identifies two specific objectives, one which appears to focus on capacity building for local communities and another targeted at reducing the risk of poverty by improving access to jobs.

**Table 5.16 Investment Priorities and Specific Objectives in Priority Axis 9**

Investment Priorities	Specific Objectives
IP1. Undertaking investment in the context of community-led local development strategies	SO1. To build capacity and mobilise resources at community level that overcome persistent barriers to growth and employment in lagging areas or deprived communities.
	SO2. Reduce risk of poverty and social exclusion through improved access to economic growth and development opportunities

### Feedback Provided to DCLG and their Response

5.211 The evaluation team did provide some feedback on a very early draft of the intervention logic table. However, the priority axis has undergone significant change since then. The initial draft had several gaps and had not specified that the focus of the PA would be on community led local development.



**Table 5.17 Feedback Provided to CLG to date and its Response**

Investment Priority 1 – feedback provided prior to OP Draft dated 18 <sup>th</sup> June, 2014	
Feedback	Response in Current OP
Limited description of the key socio-economic challenges or supporting evidence	Now provides a detailed explanation of the key socio-economic challenges faced by deprived communities and the need for community led development
Investment priority not consistent with ERDF regulations	The OP now identifies a relevant investment priority which is consistent with ERDF regulations
No specific objective provided	The OP now identifies two specific objectives
Limited information provided for indicative actions or outputs.	The OP now provides a fuller list of indicative actions and outputs
Specific Objective One – feedback provided in response to OP Draft dated 18 <sup>th</sup> June 2014	
Provide a separate rationale for each specific objective setting out the reasons for each	The current draft does not provide a separate rationale for each specific objective, but the section does provide a more detailed rationale which justifies the selection of both.
Provide a more detailed description of how CLLD will work in practice and the key skills required.	The text provides a detailed description of how CLLD will work and the skills required. It also references section 4 which provides even more detail and sets out the key criteria that CLLD projects will need to meet.
Move the text which describes the types of challenges that CLLD will respond to from the 'guiding principles' section to the rationale section.	The text relating to development needs and challenges is still in the 'guiding principles' section.
The 'guiding principles' section should set out the criteria that CLLD projects would need to meet.	These criteria are now explained in the text
Structure/simplify the list of actions around a number of key themes (eg entrepreneurship, innovation, infrastructure/capital investment)	The list of actions has been changed, but is still quite long and would benefit from further simplification.
Provide a statement (either here or in priority axis 3) which defines the parameters for entrepreneurship activities being proposed here and the anticipated relationship with PA3/SO3 activity.	The revised draft does not provide any text which describes the relationship between these two priority axes.
Include more detail about how activities delivered through ERDF and ESF will be aligned.	The revised draft now provides an explanation of how ERDF and ESF will work alongside each other.

## Review of the Priority Axis

### Specific Objectives 1 and 2

- 5.212 The changes made to this priority axis since the draft dated 18<sup>th</sup> June 2014 have adequately responded to most of the comments made in our initial review.
- 5.213 The priority axis now provides an explanation for why it has been divided in to two specific objectives, with one focused on capacity building and the other focused on delivering community led development strategies. The revised priority axis provides a rationale for capacity building which was absent from the initial draft, however we still feel that the chapter would benefit from a separate rationale for each specific objective. For SO2, this should describe the key economic challenges faced by these areas which the specific objective is responding to. These are currently described in section 2.A.0 and 2.A.2.2, but moving these to the rationale section for SO2 would make it

more readable and ensure that it is consistent with all of the other priority axis chapters, which define the specific objective and then provide a rationale.

- 5.214 The priority axis now makes a clear and convincing case for CLLD and articulates the added value of this approach over and above the individual priority axes. However it could still be strengthened by providing a clear statement on how it will operate alongside these other priority axes, and provide reassurance that there will be no duplication of activity. Our previous comments highlighted a number of possible areas of overlap which have not yet been addressed, either here or in the other priority axis chapters. This is particularly the case for specific objective 3 in PA3, which aims to “increase entrepreneurship, particularly in areas with low levels of enterprise activity and amongst under-represented groups”. This implies that there will be targeting of activities in deprived areas and will be delivering very similar services to those identified in this Priority Axis.
- 5.215 The actions for this priority are well defined and specific. As noted in our previous comments, they may be a little too specific, given that the actions themselves will be locally determined and dependent on local challenges and opportunities. The next draft may wish to consider grouping some of the actions under common themes as there is a risk that these are too prescriptive. However this is just a minor point.
- 5.216 The coherence of the priority axis has been strengthened by drawing stronger links with ESF which is likely to be a significant source of funding for the majority of CLLD projects. It provides a number of examples of ESF funded activity which would complement the types of activity being proposed for ERDF.
- 5.217 The priority axis also presents a clear explanation of the criteria that CLLD projects will need to meet. However, the chapter would benefit from more information on how many CLLD projects may be funded and how they will be prioritised. The chapter indicates there is around £48m allocated for CLLD, and the Partnership Agreement states that 20 ESIF strategies plan to use CLLD. This would result in an allocation of £2.4m if divided equally, which may not be sufficient to achieve the range of objectives described here. The priority axis should give a clearer indication of how funding would be allocated.

## Summary

- 5.218 Conclusions have been drawn for the Priority Axis as a whole in relation to the key ex-ante evaluation tests. These are as follows:

### Consistency with Policy

- 5.219 This priority axis is consistent with the European Platform against Poverty and Social Exclusion. This highlights the need to address the multiple forms of poverty and disadvantage experienced by deprived communities, and encourages responses which deliver joined up services that address the multiple forms of disadvantage. CLLD also shows a strong fit with the UK Government’s localism agenda, which encourages communities to take control of their own issues and shape their own solutions, recognised in ‘Local Growth: Realising Every Place’s Potential’.

### Consistency with Socio-Economic Challenges

- 5.220 The actions proposed in this priority axis is consistent with the socio-economic challenges experienced in many deprived areas of England. These challenges are articulated and evidenced in the OP and UKPA.

### Coherence

- 5.221 As stated above, there is overlap between the activities delivered in this priority axis and PA1 and PA3. This is permitted in the ERDF regulations if it is in the context of community led, integrated strategies. The key concern about the internal coherence of this priority axis is with its fit with specific objective 3 in priority axis 3 which also focuses on increasing entrepreneurship in deprived areas. The OP should be clear how it will ensure that this activity is not duplicated. The priority axis also demonstrates how delivery of activities will be integrated with those being delivered through the ESF OP.

### Adequacy of the Intervention Logic

- 5.222 The priority axis presents a strong rationale for the use of CLLD as a delivery mechanism for ESI funds, and demonstrates the added value of this approach in deprived areas.

### Ex-ante conditionalities

- 5.223 The guidance for ex-ante conditionalities does not identify specific conditionalities for the investment priority concerned with community led local development.

### Remaining issues to address

- Provide a separate rationale for each specific objective setting out the reasons for each. The text which is currently in the 'guiding principles' section should be moved to this section and can be used to provide the rationale for SO2
- Structure/simplify the list of actions around a number of key themes (eg entrepreneurship, innovation, infrastructure/capital investment)
- Provide further clarification of how CLLD will work alongside activity delivered through the other priority axes. It should provide a statement (either here or in priority axis 3) which defines the parameters for entrepreneurship activities being proposed here and the anticipated relationship with PA3/SO3 activity.
- Provide further detail on how projects will be prioritised and how the funding will be allocated. Based on the current information, it appears CLLD projects will have an average allocation of £2.4m which may not be enough to achieve the range of objectives described here (although providing a clearer indication of how ERDF will be used alongside existing local strategies and other sources of funding may help to address this point)

## Priority Axis Ten – Sustainable Urban Development

### Focus of the Priority

- 5.224 Sustainable urban development (SUD) is one of the possible delivery mechanisms for Integrated Territorial Investment. Article 7 (1) of the ERDF regulation states that ERDF

can support sustainable development through “strategies that set out integrated actions to tackle the economic, environmental climate, demographic and social challenges affecting urban areas”. The holistic and integrated approach of SUD permits the drawing of funds from a number of different priority axes in the same or different programmes. As such, this priority axis identifies 13 specific objectives across 13 investment priorities.

**Table 5.18 Investment Priorities and Specific Objectives in Priority Axis 10**

Investment Priorities	Specific Objectives
IP1: Strengthening research, technological development and innovation by: promoting business investment in R&I; developing links and synergies ....	SO1: Increase the number of SMEs innovating to bring new products and processes to the market SO2: Increase collaborative research and innovation between large enterprises, research institutions and public institutions to improve SME commercialisation
IP2: Extending broadband deployment and the roll-out of high-speed networks and supporting the adoption of emerging technologies and networks for the digital economy	SO3: Increase the coverage and take up of superfast and ultrafast Broadband in areas where the market is failing, particularly where this is creating a barrier to SME growth
IP3: Developing ICT products and services, e-commerce, and enhancing demand for ICT	SO4: Increase the number of SMEs using and having access to digital technologies including trading on line
IP4: Supporting the capacity of small and medium sized enterprises to grow in regional, national and international markets and to engage in innovation processes	SO5: Increase growth capability of SMEs
IP5: Promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms, including through business incubators.	SO6: Increase entrepreneurship, particularly in areas with low levels of enterprise activity and amongst under-represented groups
IP6: Promoting research and innovation in, and adoption of, low-carbon technologies	SO7: Increase innovation in, and adoption of, low carbon technologies.
IP7: Promoting the production and distribution of energy derived from renewable sources	SO8: Increase implementation of whole place low carbon solutions and decentralised energy measures.
IP8: Promoting low-carbon strategies for all types of territories, in particular for urban areas, including the promotion of sustainable multimodal urban mobility and mitigation-relevant adaptation measures	
IP9: Promoting energy efficiency and renewable energy use in enterprises	SO9: Increase energy efficiency and implementation of low carbon technologies in all types of enterprise
IP10: Supporting energy efficiency, smart energy management and renewable energy use in public infrastructure, including in public buildings, and in the housing sector	SO10: Increase energy efficiency and implementation of low carbon technologies
IP11: Protecting and restoring biodiversity and soil and promoting ecosystem services, including through Natura 2000, and green infrastructure	SO11: Investments in Green and Blue infrastructure and actions that support the provision of ecosystem services on which businesses and communities depend to increase local natural capital and support sustainable economic growth
IP12 Promoting innovative technologies to improve environmental protection and resource efficiency in the waste sector, water sector and with regard to soil, or to reduce air pollution	SO12: Investment in the uptake of innovative technologies and resource efficiency measures to increase environmental protection, resilience and performance of businesses and communities.
IP13: Providing support for physical, economic	SO13: Unlocking growth potential in

## Feedback Provided to Date

- 5.225 Some initial feedback was provided for this priority axis, however it was based on the ESIF strategy for London. There have been substantial changes made to the priority axis since then, which now includes a number of other core cities. We have therefore not documented all of the original comments and how they have been addressed.

## Review of the Priority Axis

- 5.226 SUD is intended to improve the delivery of structural funds in urban areas by allowing authorities to draw on funding from several priority axes (and different structural funds) to help deliver an integrated strategy for an area. It allows authorities to identify and exploit synergies between different priority axes, which can lead to a better aggregate outcome for the same amount of public investment.
- 5.227 Our main concern with the current draft of the priority axis is that it fails to convey the main purpose of SUD, how it will be distinct from the actions delivered under the other thematic objectives and what the added value of this approach might be. Although the introductory paragraph does state that the actions funded through this priority axis will be based on integrated strategies, it fails to make a convincing case for why SUD is being pursued as a delivery mechanism, what flexibilities or other advantages it will grant to urban authorities and what the overarching principles will be for the selection of investments (eg complementarity/alignment across thematic objectives).
- 5.228 The priority axis indicates that each of the English cities with populations of over 600,000 have been asked to prepare strategies setting out how they would address the multiple challenges they face in an integrated way. These strategies are key to the priority axis as they will determine how SUD funding will actually be spent. The only city strategy which we have seen for this review is for London (which will receive 71.5% of the SUD allocation), in the form of the LEP's ESIF strategy. Although this document presents a strong intervention logic and a good fit with EU policy and strategy, we do not get a clear sense of how it represents an integrated strategy, which is the key purpose of SUD. Each of the themes is described in turn, but with very few examples of how they are complementary to each other or how they will be delivered in a joined up way.
- 5.229 The strategies for the other cities have not been made available for this review, which makes it difficult to judge how this priority axis will be used by each of the cities which have received allocations for SUD. The UK Partnership Agreement is clear that these urban strategies will need to be agreed by the UK Government before the Core Cities can begin selecting projects for SUD. The UK Government should ensure that these strategies represent genuine joined-up strategies which put forward innovative examples for the use of structural funds, and are not just amended versions of the local ESIF strategy.
- 5.230 The financial allocations for this priority axis give some indication of the different approaches being proposed, with Manchester and Birmingham appearing to adopt an environmental focus (TO4 and TO6), and Liverpool, Bristol and Leeds focusing more on business growth and innovation (TO1, TO3 and TO4). There is clearly potential for synergies between these thematic objectives, however these are not specified in the

priority axis. Instead, it describes 13 distinct specific objectives with no or little description of the synergies with each other, or how they could be integrated in different urban contexts.

- 5.231 The majority of the text is exactly the same as that in the other priority axes with the addition of one or two examples of actions or challenges which are relevant to certain cities (in most cases London). The 'guiding principles' section would appear to be the most suitable place to specify that projects will only be funded if it can be shown they are part of an integrated strategy for an area, and that they are therefore offering something distinct from projects funded through the other priority axes. This section should state the principles which will be pursued in the selection of projects (eg complementarity, avoidance of duplication with other priority axes, use of innovative actions). Instead, the guiding principles for most of the specific objectives use the same text and criteria as the other priority axis chapters. This gives no clear sense of how the actions delivered in this 'integrated' priority axis will differ from the other priority axes or what the added value of SUD will be.
- 5.232 The priority axis does not give a clear sense of how ERDF and ESF could be used together. Although the use of both funds is not a pre-requisite for SUD, the guidance for SUD states "Member States should seek to use ESF in synergy with the ERDF to support measures related to employment, education, social inclusion and institutional capacity designed and implemented under the integrated strategies". The current draft contains only one reference to ESF (in the text accompanying specific objective 13). This is the thematic objective where there is the clearest link with ESF activity as it relates to social inclusion. However it gives the impression that this is the only potential source for synergies between ERDF and ESF. There are likely to be numerous examples of where employment and skills interventions could complement ERDF activity linked to innovation, low carbon etc. The opening paragraph should therefore make clear that the Core Cities will be encouraged to make the most of the flexibility offered by integrating the funds.
- 5.233 The current draft has used the same baseline and result indicators as all of the other priority axes, but has not updated the baseline or result values so that they are relevant to the Core Cities/London and not England as a whole. In many cases, the result indicators are unlikely to be available at the level of individual cities and will need to be changed (eg specific objective 7 which requires a measurement of the value of the low carbon, environmental goods and services sector, or specific objective 5 related to the gap in productivity between large and small firms).
- 5.234 There is a clear focus on London in the text throughout the priority axis. This is understandable given that it accounts for over 70% of the SUD allocations. However there are certain thematic objectives where the text should give some consideration to the key development needs highlighted by other cities. For instance, the financial allocations indicate that all of the cities have prioritised TO4 as part of their urban strategies (supporting the shift toward a low carbon economy). However the text in the SUD chapter for specific objective 7 is focused exclusively on London.
- 5.235 The management arrangements for SUD are set out in Chapter 4 of the OP and in the UK Partnership Agreement. It appears London will act as the only intermediary body, while the other cities will be able to select projects which are consistent with their urban development strategies once they are approved by the UK Government. These arrangements will be set out in writing and procedures will be put in place to ensure

clear accountability. This appears to be consistent with Article 7 of the ERDF regulation.

## Main Issues to Address

- 5.236 The introduction to the SUD chapter needs to present a much stronger rationale for the use of SUD and the benefits of this approach compared to delivery under each of the individual priority axes. This should set out clear statements on the following:
- What SUD is aiming to achieve within England
  - How the approach and implementation will be distinct from the other priority axes
  - What additional freedoms and flexibilities it will provide for those authorities delivering SUD
  - The principles which will be pursued (eg complementarity between actions, avoidance of duplication, encouraging innovative actions, clear evidence of alignment between ESF and ERDF)
  - What the overall added value of SUD would be.
- 5.237 These points should be reflected throughout the rest of the Priority Axis. The 'guiding principles' section for each specific objective should reinforce these points and provide a clear explanation of how investments funded will differ from those under the other priority axes, and that they will only be funded where it can be shown they are part of an integrated strategy for an area.
- 5.238 From a practical perspective, this is likely to require reducing the description of the SOs (which is largely replicated from other PAs anyway) and to focus more on describing the framework and principles for SUD in England and the manner in which this will help to deliver integrated strategies which add value in the localities in which they operate.
- 5.239 Revisit all of the baseline and results indicators. This should ensure that the proposed indicators can all be measured at the level of cities, and that the baseline data and targets are relevant to the cities proposing to focus on these specific objectives as part of their integrated strategy.
- 5.240 Include more references to challenges experienced in cities outside London, particularly for those specific objectives which all of the cities are proposing to focus on (eg SO7).

## Priority Axis Eleven – Technical Assistance

### Focus of the Priority

- 5.241 The priority for technical assistance covers two specific objectives, namely:
- SO1: To ensure that the activities which fall within the scope of the programme are managed, monitored and evaluated in line with the Common Provisions Regulation, ERDF Regulation and the Commission's delegated and implementing regulations
  - SO2: To facilitate access to the programme and communicate the impact that the European Structural and Investment Funds have, including by providing robust

governance support to the PMC and sub-committees and high quality advice and information to partners involved in the design and delivery of projects.

5.242 The current allocation to the priority as a whole is £145m or 4% of the overall ERDF allocation.

### Review of the Priority Axis

5.243 Overall, while there is a fair amount of useful material in this section, there is something of an imbalance, with a fair amount of space devoted to aspirational statements (such as the lengthy list on page 117 of the intended outcomes of TA) but with little hard information about what actions will be taken to secure these outcomes: the material from page 124 on often feels vague e.g:

- 'Evaluation linked to the monitoring of the Programme'
- 'The delivery of the [Communications] Plan will be led by the Managing Authority with support from relevant partners who will have a key role to play in contributing to its implementation' [which partners? What role?].

5.244 More information could usefully be provided on how TA will be used to support local delivery (including the support for LEP teams), particularly given that (as the document rightly stresses) the delivery model is wholly different from previous arrangements. For example, some idea of the scale of these operations would be helpful and the extent to which ERDF can be accessed to support these activities.

5.245 There seems to be a strong emphasis throughout on the goal of ensuring compliance with the Regulations. While this is understandable, the Commission might well argue that Technical Assistance is intended to ensure that Programmes achieve more than these minimum standards. This should be borne in mind.

5.246 In terms of indicators, the Output Indicator table has not been completed, but the results indicator table contains a number of quantitative indicators which might be more suitably included as outputs (e.g. number of training events, number of committees supported). It is also not clear why there are two separate results tables.

5.247 In terms of the structure, while it is understood that decisions on this are closely linked to the overall structure of the Programme, it is not immediately clear whether it is necessary to have three separate Priority Axes, essentially identical in content, for each of the different categories of region: the Regulations (Art. 119 (4)) provide for a priority axis to cover more than one type of region, with resources distributed pro rata between the different categories, and this would appear on the surface to make more sense (if only to prevent repetition in completing the on-line version).

5.248 In terms of more minor points:

- More information is probably needed about the development of what we understand to be a new IT system as this is critically important to the successful delivery of the OP
- In referring to the use of TA for evaluation activities, there might usefully be a reference to the Evaluation Plan which is required to be presented to the PMC within the first year of the OP (CPR Art. 114)
- In the output indicator table, the figure of 2,000 looks very high for 'number of committees supported'



- References (p. 127) to 'member states and managing authorities' and to 'the managing authorities' are a bit confusing in the context of an OP where there is only one managing authority
- References to 'new or enhanced websites and bespoke newsletters' could usefully be made more specific and linked to the requirement in the Regulations for a single portal for all OPs in a member state (CPR Art. 115).

## 6. Indicators and Targets

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This section addresses the following specific ex-ante evaluation questions:

- The relevance and clarity of indicators proposed to measure outputs and results
  - How the expected outputs will contribute to results
  - Whether the target values for indicators are realistic.
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- 6.1 The target and indicators framework for the OP was not complete in the draft reviewed and clearly is not as yet fully developed. There has been very limited quantification of outputs in the draft of the OP reviewed and limited quantification of baselines and projected changes in results. Our comments are necessarily interim in nature as the framework is not sufficiently well developed to comment fully.
- 6.2 Overall, we consider that the emerging framework will be complex, difficult to manage and time-consuming to report on. This is in large part due to the large numbers of separate TOs and Investment Priorities/Specific Objectives in a Programme which includes all three categories of Area.

### Result Indicators

- 6.3 The EU regulations on setting result indicators do present a challenge for the England ERDF programme. The levels of investment in most geographies (except Cornwall and the Isle of Scilly) and on most themes is very small relative to the size of the economies or the factors that make practical sense as the focus of result indicators. It will therefore be almost impossible to discern or connect ERDF investment to many indicators. Table 7.1 provides a summary.
- 6.4 The key points which need to be addressed are:
- The results indicators for all TOs (except TO7) will need to be stress tested to see if they can be robustly measured and tracked at the level of the category of region (which obviously implies all MDAs, all TAs and the LDA) in England.
  - In some cases the baseline values are 2011 which does not link well to the start of programme period and would benefit from more up to date baseline where available.
  - Result indicators chosen for TO1 to TO3 are in most cases logical and link back to the interventions, however in the case of TO3 it is highly unlikely that there would any discernable impact from ERDF on these particular indicators.
  - There is a lack of any result indicators related to SME finance which, given the importance of this type of intervention to the programme, is a significant omission.
  - The results indicators for TO4 are not currently well developed and a number are either not suitable or have limited measurability:
    - Some indicators will not provide a robust basis for on-going measurement as they are based on one off measures which are subject to considerable uncertainty (e.g. the value of the low carbon environmental goods and services sector (ID 4.1);

- Others will be very difficult to capture in a consistent manner (ID 4.2 increases in renewables in places with low carbon plans) and also may not logically be linked to the funded activities.

6.5 Others such as total industrial and service sector energy consumption are heavily influenced by energy intensive sectors and users which are less likely to be supported by ERDF.

Table 6.1 Overview of Suitability of Result Indicators and Targets				
Thematic objective	Selected investment priority	Proposed result indicator	Baseline or target	Comment
TO1: Strengthening research, technological development & innovation	SO1 - Increase the number of SMEs innovating to bring new products and processes to the market	1.1: Proportion of small and medium sized enterprises that are innovation active	44.9%, 2013	Logical indicator. UK Innovation Survey reasonable data source based on EU wide definitions, although published only every 2 years
		1.2: Number of SMEs claiming R&D tax credits	8,810, 2011/12	Accept the measure has some value as a proxy for degree of innovation. But have serious reservations with use of number of SMEs in receipt of R&D tax credit and value.
		1.3 Value of tax credits claimed by SMEs	£381m, 2011/12	The access to tax credits can be determined by changes in eligibility and taxation policy, these could change in the future making comparisons over time difficult
	SO2: Increase collaborative research and innovation between large enterprises, research institutions and public institutions to improve SME commercialisation	1.4 Value of services provided by SMEs to HEIs	£139,761 (unclear what units, may be £000s)	We assume that this measures extent of services provided by HEIs to SMEs (rather SMEs to HEIs as stated), in which case this is a reasonable proxy for collaboration. However, relies on robustness of the data captured and does not capture the number of SMEs engaged. A better measure might be the question in the UK Innovation Survey that asked SMEs about whether they collaborate with HEIs (and indeed other research institutions)
	PMF Output measure	Number of enterprises assisted (CO1)	30,800	Very broad output measure that does not capture in any sense the quality of the intervention. More logical measures would be: EC common indicators 26 or 28
TO2: Enhancing access to, and use and quality of, ICT	SO1: Increase the coverage and take up of superfast and ultrafast Broadband in areas where the market is failing, particularly where this is creating a barrier to SME growth	Coverage of superfast to at least (>30Mbps) broadband across England	77% in 2013 with target of 100%	Sensible indicator well linked to SO. Ideally the indicator should relate to business premises only. The target looks unrealistic as coverage will always be difficult to achieve in certain rural areas
		Percentage of businesses which use at least superfast (>30Mbps) broadband	15.9% in 2012, with target of 20%	Sensible indicator well linked to SO. Target looks relatively modest.
	SO2: Increase the number of SMEs using and having access to digital technologies including trading on line	Percentage of SMEs selling goods and services through a website	33.5% in 2012	Not an ideal measure for use of ICT as the ability to sell via web site depends on sector. However a not unreasonable proxy and also links to EU level target
	PMF Output indicator	Additional	21,300	A reasonable indicator for capturing SO1 activity (but not

Table 6.1 Overview of Suitability of Result Indicators and Targets				
Thematic objective	Selected investment priority	Proposed result indicator	Baseline or target	Comment
		businesses with broadband access of at least 30mbps		SO2 activity). Might want to consider two output indicators one for <u>each</u> SO (SO2 Would be CO1)
TO3: Enhancing the Competitiveness of SMEs	SO1& 2: Increase the growth capacity of SMEs	3.1 Number of jobs in small and medium sized firms (FTEs)	9.826 million (in 2011)	Relevant but at the end of a long chain of interventions and with many other factors in play. Unlikely that the impact of ERDF would be in any sense discernible on either.
		3.2 SME productivity gap (GVA per employee) compared to large firms	£6,400, 2011	Poor indicator. Change in gap could be due to many factors including declining productivity in larger firms.
	SO3: Increase entrepreneurship, particularly in areas with low levels of enterprise activity and amongst under-represented groups	3.3 Total early stage Entrepreneurial Activity The proportion of adults (18-64) of working age in the process of starting or running a business less than 42 months old	7.5% in 2013	Reasonable indicator at an aggregate level. The source is a national survey. However, there are margins of error around the survey used which may make its use below England level not robust enough to measure changes over time. Also the indicator does not capture at all the focus of SO3 on under-represented groups and areas.
	PMF Output	No's of enterprises supported (CO1)	55,700	Reasonable indicator to include capturing the wide range of activity likely to be supported. However, could be enhanced by also including "Number of new enterprises supported EC Common Indicator 5". Or replaced by EC Common Indicator 8: FTE Employment increase in supported enterprises
TO4: Supporting the shift towards a low carbon economy in all sectors	SO1: Increase innovation in, and adoption of, low carbon technologies.	4.1 .Increase in the size of the low carbon environmental goods and services sector in England.	£108.5bn in 2011/12	Based on a one off research that cannot be easily updated or replicated in a consistent manner over time. Not a suitable baseline or results indicator.

Table 6.1 Overview of Suitability of Result Indicators and Targets				
Thematic objective	Selected investment priority	Proposed result indicator	Baseline or target	Comment
P	SO2: Increase implementation of whole place low carbon solutions and decentralised energy measures.	4.2 Increase in the level of local energy renewables in places with a low carbon plan	n/a	Relevant, but will it be possible to measure these at the level of “places with a low carbon plan”?
		4.3 Reduction in carbon emissions in areas with whole place low carbon plans	n/a	
	SO3: Increase energy efficiency and implementation of low carbon technologies [in all types of enterprise]	Industrial energy consumption (in tonnes oil equivalent) per million units of GVA	127.6, 2012	Aimed at IP 4. Relevant but at the end of a long chain of interventions and with many other factors in play. Unlikely that the impact of ERDF would be in any sense discernible on either. Appear also to be UK figures not England.
		Service sector energy consumption (in tonnes oil equivalent) per million units of GVA	20.1, 2012	
		Index of Domestic energy consumption per household (1980+10)	85.5	Aimed at IP 5. Same comments apply
PMF Outputs	Estimated GHG reduction	No target as yet	Highly relevant. However, measurement and attribution to the ERDF funded activities will be technically difficult indicator.	
TO5: Promoting climate change adaptation, risk prevention and management	SO1: Enabling and protecting economic development potential through investment in flood and coastal flooding management where there is demonstrable market failure	Enabled development, intensification or recapitalisation of commercial land through removal of flood and coastal risk constraint	Sqm no baseline as yet	A relevant indicator. Will need a proper baseline to be able to measure change
		10-year discounted	1,173,512m	Not clear what this baseline relates to. The proposed result

Table 6.1 Overview of Suitability of Result Indicators and Targets				
Thematic objective	Selected investment priority	Proposed result indicator	Baseline or target	Comment
		additional Gross Value Added measured at LEP level	(England total in 2012)	measure will, by definition, be a forward looking measure that cannot be confirmed by the end of the Programme.
	PMF output indicator	Enterprises receiving support (CO1)	3,000	Relevant measure if relates to the SMEs in current or new industrial areas protected by flood defences
TO6: Preserving and protecting the environment and promoting resource efficiency	SO1 - Investments in Green and Blue infrastructure and actions that support the provision of ecosystem services on which businesses and communities depend to increase local natural capital and support sustainable economic growth	Increase of the area of green and blue infrastructure	None	If can be measured, could be a results indicator. However, it would not in any sense measure the value of the improvements.
	SO2: Investment in the uptake of innovative technologies and resource efficiency measures to increase environmental protection, resilience and performance of businesses and communities.	Increased resource productivity	None	In principle a good results indicator, but no baseline and difficult to see how it could be measured
	PMF Output	None as yet		
TO7: Promoting sustainable transport and removing bottlenecks in key network infrastructures	7(a) supporting a multimodal Single European Transport Area by investing in the Trans European Transport Networks;	Reduction in traffic congestion Reduction in travel time	None	Very project specific, relevant and will be amenable to attribution to ERDF, no baseline as yet
	7(b) enhancing regional mobility by connecting secondary and tertiary nodes to Trans European Transport Networks infrastructure, including			

Table 6.1 Overview of Suitability of Result Indicators and Targets				
Thematic objective	Selected investment priority	Proposed result indicator	Baseline or target	Comment
	multimodal nodes			
	7(c) developing and improving environmentally-friendly (including low-noise) and low-carbon transport systems, including inland waterways and maritime transport, ports, multimodal links and airport infrastructure, in order to promote sustainable regional and local mobility;	Increase in passenger numbers	None	Very project specific, relevant and will be amenable to attribution to ERDF, no baseline as yet
		Increase in freight	None	
TO9 Promoting social inclusion and combating poverty Community Led Development	9d - Undertaking investment in the context of community led local development strategies	None at present		



- The result indicators for TO5 are a confused mixture as other elements have been added to the 10-year discounted GVA return from investment in flood management. The values proposed are difficult to put in context without a proper baseline.
- No results indicators for TO6 are supplied as yet.
- TO7 is split across two priority axes (PA7 and PA8) – both currently have result indicators that are in effect the transport consequences (speed, congestion or traffic activity) of specific investments. In the absence of knowing what these investments are, it will be difficult to develop meaningful baselines and target values.

## Output Indicators

- 6.6 The OP sets out two types of outputs indicators for each specific objective / investment priority: all common and programme specific indicators that are relevant; plus a small subset of indicators are used for the Performance Framework.

TO1: Strengthening research, technological development & innovation

- 6.7 The use of total number of enterprises receiving support (O11) for the performance framework does not strike us as a good indicator to measure overall performance as this does not in any sense capture the value of or depth of the intervention.

TO2: Enhancing access to, and use and quality of, ICT

- 6.8 Given the very different nature of investment under IP1 and IP2 in this TO, there is a case for two separate and relevant performance framework outputs and so included also PS1 “Additional enterprises accessing ICT products and services including broadband”.

TO3: Enhancing the Competitiveness of SMEs

- 6.9 The choice of indicators is reasonable, however we consider the indicator chosen for the performance framework “Number of enterprises receiving support” to be of limited value. It also does not cover the focus on support for new businesses. There is a case for replacing it with “Employment increase in supported enterprises” (which better links to the proposed result indicators) and also including “Number of new enterprises supported”.

TO4: Supporting the shift towards a low carbon economy in all sectors

- 6.10 The use of total number of enterprises receiving support (O11) for the performance framework does not strike us as a good indicator to measure overall performance as this does not in any sense capture the value of or depth of the intervention. It is also poorly related to what much of the investment in the TO is likely to be.

- 6.11 There is a case for including as one of the performance framework indicators “Additional capacity of renewable energy production”.

TO5: Promoting climate change adaptation, risk prevention and management

- 6.12 The use of total number of enterprises receiving support (O11) for the performance framework could be a reasonable indicator to measure overall performance if it captures the number of businesses covered by areas for flood prevention). However, it may be poorly related to what much of the investment in the TO is likely to be.

TO6: Preserving and protecting the environment and promoting resource efficiency/ TO7: Promoting sustainable transport and removing bottlenecks in key network infrastructures/TO9: Promoting social inclusion and combating poverty

6.13 Limited progress in developing framework.

## Conclusions

- 6.14 We have not yet been able to provide a comprehensive analysis of the output and results indicators and targets, nor the performance framework due to gaps in this information in the OP and the methodology for determining some of these targets. The conclusions are therefore interim in their nature.
- 6.15 Overall, we consider that the emerging framework will be complex, difficult to manage and time-consuming to report on. This is in large part due to the large numbers of separate TOs and Investment Priorities/Specific Objectives in a Programme which includes all three categories of area. As CLG have opted to take this approach, they now need to be very mindful of this challenge in designing their monitoring and evaluation framework and the testing of its suitability and robustness.
- 6.16 In terms of the results indicators and targets which have been set, the key points which need to be considered are:
- 1) The results indicators for all TOs (except TO7) will need to be stress tested to see if they can be robustly measured and tracked at the level of the category of region (which obviously implies all MDAs, all TAs and the LDA) in England
  - 2) Result indicators chosen for TO1 to TO3 are in most cases logical and link back to the interventions, however in the case of TO3 it is highly unlikely that there would any discernible impact from ERDF on the selected indicators
  - 3) There is a lack of any result indicators related to SME finance which, given the importance of this type of intervention to the programme, is a significant omission (although this is a challenging intervention to measure with a result indicator)
  - 4) The results indicators for TO4 are not currently well developed and a number are either not suitable or have limited measurability (due to being based on what one off surveys where there is not necessarily a commitment to repeat the exercise)
  - 5) The result indicators for TO5 are a confused mix as other elements have been added to the 10-year discounted GVA return from investment in flood management
  - 6) No results indicators for TO6 have yet been provided as yet
  - 7) TO7 (PA7 and PA8) include result indicators that are in effect the transport consequences (speed, congestion or traffic activity) of specific investments – in the absence of knowing what these investments are, it will be difficult to develop meaningful baselines and target values.
- 6.17 Whilst the majority of the output indicators are judged to be appropriate, the suitability of a number needs to be reconsidered and ideally replaced with more suitable measures. A number of suggestions have also been made for more suitable indicators for inclusion in the performance framework.

## 7. Financial Allocations

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This section addresses the following specific ex-ante evaluation questions:

- The justification and consistency of the allocation of budgetary resources with the objectives of the programme and type of actions proposed.
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7.1 The current draft of the Operational Programme includes financial allocations by Thematic Objectives and category of region (at least the excel based spreadsheet does), although not yet by investment priority or by category of expenditure. In light of these gaps in the financial data for the programme, we have restricted our comments within this chapter of ex-ante evaluation. The comprehensive analysis will be completed once relevant data is available.

### Method of Determining Allocations

7.2 The decisions on financial allocations within the OP will normally be influenced by the nature and spatial pattern of the socio-economic challenges and opportunities across England, the absorptive capacity spatially and thematically, as well as the lessons concerning the economic effectiveness of different types of interventions.

7.3 The ERDF allocations to the thematic objectives at the England level and by category of region have primarily been built up in a bottom-up manner:

- Each LEP developed their European Structural and Investments Funds plans within an overall ERDF allocation which was provided to them by UK Government. These allocations were determined by the Government on the basis of the needs and opportunities of the respective LEP areas, using a range of indicators with which to judge this.
- The plans were prepared in accordance with a framework which UK Government set out for the LEPs<sup>23</sup>, with draft ESIF plans submitted by LEPs initially in December 2013 and then revised plans submitted at the end of January 2014.
- The specific investment proposals across the thirty nine LEPs provided the basis for determining the allocation across the PAs/SOs, supplemented with negotiation between the Government and the LEPs concerning their ESIFs and the allocations by TO. The main change at a programme level has been the agreement with LEPs that ERDF will not be used for TO8 and TO10.

### Allocations by Thematic Objective

7.4 Table 8.1 sets out the ERDF allocations by PA/TO and category of region. At the time of drafting the ex-ante evaluation report, the financial allocations by IP were not available.

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<sup>23</sup> Preliminary guidance to Local Enterprise Partnerships on development of Structural & Investment Fund Strategies, HM Government, April 2014; The Development and Delivery of European Structural & Investment Fund Strategies – Supplementary Guidance to LEPs, HM Government, July 2013.

**Table 7.1 Financial Allocations by Priority and Category of Region**

Priority Axis	Less Developed Areas		Transition Areas		More Developed Areas		Total	
	Euro millions	%	Euro millions	%	Euro millions	%	Euro millions	%
PA1 Innovation	99.3	22%	209.9	20%	402.9	19%	712.0	20%
PA2 ICT	23.4	5%	34.4	3%	69.3	3%	127.0	4%
PA3 SME Competition	167.7	37%	482.5	45%	759.7	36%	1409.8	39%
PA4 Low carbon	54.9	12%	173.5	16%	410.5	20%	638.9	18%
PA5 Climate change	11.7	3%	41.4	4%	32.5	2%	85.6	2%
PA6 Environment	12.8	3%	36.2	3%	53.7	3%	102.7	3%
PA7 Transport in Cornwall	46.7	10%	0.0	0%	0.0	0%	46.7	1%
PA8 Transport in rest of England	0.0	0%	24.5	2%	0.0	0%	24.5	1%
PA9 CLLD	21.0	5%	1.5	0%	25.9	1%	48.5	1%
PA10 SUD	0.0	0%	23.4	2%	263.0	13%	286.4	8%
PA11 TA	18.2	4%	42.8	4%	84.1	4%	145.1	4%
Total	455.7	100%	1069.9	100%	2101.7	100%	3627.3	100%

- 7.5 Article 4 of the ERDF regulation sets out the requirement for thematic concentration in the selected investment priorities by category of region. In terms of the requirements for concentration of ERDF resource in thematic objectives 1-4 and specifically in thematic objective 4, these are met for England as a whole (see 7.7 below). However, it is important to bear in mind that this requirement is set at Member State level and we cannot currently verify that these have been met.

**Table 7.2 Estimated Thematic Concentrations**

Category of Area	ERDF Article 4 Criteria	Thematic Concentrations	Condition Meet
LDA			
TO1-4	at least 50% in 2 or more of TOs 1-4	75.8%	Yes
TO4	at least 12% in TO4	12.0%	Yes
TA			
TO1-4	at least 60% in 2 or more of TOs 1-4	86.1%	Yes
TO4	at least 15% in TO4	17.3%	Yes
MDA			
TO1-4	at least 80% in 2 or more 1-4	88.8%	Yes
TO4	at least 20% in TO4	23.0%	Yes

- 7.6 The remainder of the resource is spread fairly widely across six additional priority axes, covering three thematic objectives plus sustainable urban development. In most instances the allocations to the thematic objectives by category of region do not exceed 5%, with the exception of TO7 and TO9 in the single less developed region in England.
- 7.7 While the OP generally meets the specific requirements of thematic concentration, there is a risk that it does not adequately comply with the broader intention of thematic concentration and the added value that this can bring to the use of limited ERDF resource. Article 18 of the Common Provisions Regulation states that:

‘Member States shall concentrate support, in accordance with the Fund-specific rules, on interventions that bring the greatest added value in relation to the Union strategy for

smart, sustainable and inclusive growth taking into account the key territorial challenges of the various types of territories ....' (our emphasis added).

- 7.8 While the previous section noted that all the interventions fit fairly well with Europe 2020, there is limited evidence to suggest a focus on TOs and IPs where there is the greatest potential for added value at a programme level. However, as noted elsewhere in this report, this can be addressed through providing a clearer rationale for the proposed allocation.
- 7.9 The advantage of the approach adopted by CLG and BIS is that the ERDF allocations closely reflect the investment plans of the LEPs. Notwithstanding the obvious merits of this bottom-up approach, there is clearly a danger that this approach does not reflect the economic development needs and opportunities at an England or pan-LEP basis. CLG needs to demonstrate what steps they are putting in place to ensure these needs are addressed are adequately considered, addressed where appropriate and the mechanisms through which they will be achieved. .
- 7.10 We are only able to provide limited comment at this stage, given the financial data available for the programme (and the absence of allocations by investment priority). However, our observations are:
- In light of the evidence we have seen in the OP and UK Partnership Agreement we would question the underpinning logic for the proposed allocation to TO1 (R&I) compared to TO3 (SME Competitiveness). The general evidence suggests that R&I is one of the key factors which explains differentials in performance between areas. The TO1 allocation is slightly lower than we would have expected, being £0.71bn or 20% of overall ERDF, compared to £1.41bn (or 39%) for TO3. One important factor which drives this is the limited variation in the proportionate scale of investment in R&I between category of region (i.e. whilst slightly higher in the LDA, it is broadly similar across all three areas). Whilst the need or scope to invest more in the LDA may well be constrained by its absorptive capacity, we question why it is not higher in the transitional areas.
  - The Programme's only less developed area, Cornwall and the Scilly Isles, has proposed an allocation of ERDF which is more broadly spread across the TOs than the average for the transitional and more developed areas, as would be expected. However, as with the average for all categories of region, the ERDF allocation to SME Competitiveness is set at 37% of total ERDF (or £167.7m), which is a reflection of the guidance on thematic concentration. This raises the issue of the ability to absorb this within a relatively small economy, although this will be influenced by the proposed revenue and capital split (for example, it is not currently clear to what extent investment in business incubators, a relatively expensive activity, is proposed). It is our understanding that c. £63m ERDF has provisionally been allocated to SME finance support in Cornwall and the Isles of Scilly – it is the view of the evaluators that it will be very challenging to absorb this level of funding given the size and nature of the business base.
  - The overall proposed allocation for TO5 (Climate Change Adaptation), TO6 (Protecting the Environment), TO7 (Sustainable Transport) and TO9 (Social Inclusion) in the Transitional and More Developed areas are all relatively modest in absolute terms and as a proportion of available ERDF (mostly less than 3%). There is also the risk that the devolved nature of the investment planning process may lead to interventions at a local level which are too small to enable interventions on a meaningful scale and efficient programme management.
- 7.11 The allocation to TA is within the regularity limit.

## Conclusions

- 7.12 The current draft of the Operational Programme includes financial allocations by Thematic Objectives and category of region, although not yet by investment priority or by category of expenditure. Our comments are therefore limited at this stage.
- 7.13 An important part of the EC's strategy for ERDF in the new programming period is the requirement for concentration of ERDF resource in thematic objectives 1-4 set out in Article 4 of the ERDF regulation and specifically in thematic objective 4. Our analysis of the financial proposals suggests these are met for the three categories of region and for England as a whole.
- 7.14 While the OP generally meets the specific requirements of thematic concentration, there is a risk that it does not adequately comply with the broader intention of thematic concentration and the added value that this can bring to the use of limited ERDF resource (as set out in Article 18 of CPR).
- 7.15 The financial allocations by TO/PA have actually been built up on the basis of the allocations to the 39 LEPs, their Structural and Investment Fund plans, and a process of negotiation between government and the LEPs. The clear advantage of the approach is that the financial allocation for the OP closely reflects the perceived needs and opportunities locally. However, there is clearly a danger that this approach does not reflect the economic development needs and opportunities at an England or pan-LEP basis. Also, as noted earlier, the socio-economic evidence in Section One of the OP is not currently presented in a way which provides a strong justification for the financial allocation between TOs and the IPs within these.
- 7.16 Our specific observations are that:
- Given the importance of R&I in driving economic growth and productivity, the allocation to PA1 appears relatively low, especially in the transitional areas. However, we recognise that this is a matter judgement which reflects a variety of factors (needs and opportunities, absorptive capacity, etc).
  - The allocation to PA3 (SME Competitiveness) in Cornwall and the Scilly Isles, the only less developed area in the programme, appear relatively high, in particular the proposed allocation to SME finance (£c60m).
  - Relatively small allocations are proposed for PA5 (climate change), PA6 (environmental protection) and PA7 and 8 (transport). Many but not all of the 39 LEPs are proposing to make investments under these priorities and the challenge will be to make sure they add real value to their economic development strategies and deliver value for money for the programme as a whole. There is a risk that they do not.

## 8. Administrative Arrangements, Monitoring and Evaluation

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This section addresses the following specific ex-ante questions:

- The adequacy of human resources and administrative capacity for management of the Programme;
  - The suitability of the procedures for monitoring and evaluating the Programme;
  - The suitability of the milestones selected for the performance framework.
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### Administrative Arrangements and Capacity

- 8.1 While the ex-ante evaluators are required to consider the adequacy of human resources and administrative capacity for the management of the OP, the OP template does not provide the opportunity for the Managing Authority to provide evidence on this. The focus of Section 7 of the OP is on the implementation bodies and on the engagement of a wider partnership in developing and implementing the OP, while Section 10 concerns the administrative burden on beneficiaries. We therefore briefly consider the available evidence on administrative capacity before considering the content of these two parts of the OP.
- 8.2 The proposal within the OP is that the arrangements in terms of the Managing Authority, Certifying Authority, Audit Authority and the Payments Body should be unchanged and therefore there is reason to believe that the experiences and lessons from the current Programmes can be built on. The OP also contains a thorough explanation of the use of Technical Assistance, on which we have only minor comments to make (see Section Five).
- 8.3 CLG has long experience as a Managing Authority, however it has in the past incurred an error rate in excess of 2%. The EC deems an error rate over 2% to represent a failure of the management and control system. At that level the audit authority will give a qualified opinion in the Annual Control Report and the programme will be interrupted. For the last two years CLG has self-corrected, imposing a fine on itself by reducing the amount it can claim back and paying it direct from DCLG budgets. This has brought the error rate under 2% which allows the AA to give an unqualified opinion.
- 8.4 CLG has instigated a range of measures to bring the error rate below 2% for the current programmes. CLG has also completed a review of their management and business systems for the 2007-13 programme in 2013, identifying the lessons learned and the opportunities for reflecting these in the design of the new programme. The eighteen lessons cover the following themes:
- Governance and Management
  - Rules and Compliance
  - System & Business Process
  - Roles and Resources.
- 8.5 The lessons are, in the opinion of the evaluators, sensible and many of them have clearly been incorporated into the design of the new business process. CLG intend to test their whole business process prior to implementation.

- 8.6 We believe that there is evidence to suggest that CLG has the experience and capacity as Managing Authority to take forward the OP effectively and is seeking both to build on lessons and identify shortcomings in programme management during the previous programming period.
- 8.7 The Chapter provides a reasonably clear and coherent statement of the proposed arrangements for the delivery of the programme. However, the main issues are noted below:
- The chapter notes the role of LEPs in the management of the programme, as well as the Local sub-committees. The section would benefit from being much more specific about the roles and responsibilities of the LEPs, including their roles in determining project selection criteria, the nature and timing of calls for projects, and the selection and approval of these projects.
  - Whilst many LEPs and their partners will be very well placed to undertake the roles envisaged for them, others lack the necessary skills, experience and overall capacity to do this effectively. It would be helpful to indicate the measures which can be put in place to help them overcome these challenges.
  - The chapter should clearly state the basis on which members of the PMC will be appointed. Given the role of the Growth Board as the shadow PMC, we assume that this is in effect through nomination from representative bodies rather than the public appointments system.
  - The rationale for the choice of thematic sub-committees is not really clear, given that they appear to cover most but not all of the Thematic Objectives (e.g. TO2, 5, 6 and 7 are not obviously covered).
  - There is no information on the arrangements for the Sustainable Urban Development (SUD) Priority Axis. This is important as the Greater London Authority will be acting as an Intermediate Body. Its precise role vis-a-vis the Managing Authority will need to be clarified.
- 8.8 The other minor issues which our review has highlighted are:
- The lack of any discussion about how equality of access to the funds will be ensured (and conversely a 'postcode lottery' avoided) given the highly devolved nature of delivery and what (if any) arrangements will be in place to manage the performance of different LEPs in discharging their responsibilities. More detail could be provided on the Performance and Accountability sub-committee, for example.
  - The need for greater clarity on how conflicts of interest will be handled (in the context of the Regulations, notably CPR Article 125 (3)), given the emphasis on the role of the local sub-committees in project selection combined with the fact that LEPs and other partners are likely to be final beneficiaries in some instances.
  - The paragraph on the RDP (p. 161) might more usefully belong in Section 8 on Co-ordination between the Funds.
- 8.9 Turning to the question of the measures planned to reduce the administrative burden on beneficiaries, the relevant sections of the OP have been considered during the final iteration of the ex-ante evaluation. It is important to note that CLG has already integrated and standardised many of its business processes for the current ERDF programme (it was previously separate processes with separate forms, guidance and processes across the nine English regions). This now follows a national set of standardised systems and processes for England.



- 8.10 Chapter 10 provides a discussion of the feedback from beneficiaries on the operation of the current programme, although it is not clear what the source or weight of this evidence is. It also notes the desire on the part of partners for the MA to develop a business process which address five dimensions<sup>24</sup>, although the OP is vague about the precise nature of the improvements which are sought.
- 8.11 Related to these issues, the OP chapter also sets out a number of underpinning principles which CLG is intending to adopt (a number of which relate directly to the lessons noted in para 9.4, as well as a statement of the measures across the following themes:
- Standardisation of management procedures
  - Application and appraisal processes
  - Use of ICT
  - Support for applicants
  - Provision and access to guidance and procedures
  - Monitoring and audit
  - Use of simplified costs
  - Use of opt-in.
- 8.12 The discussion is helpful, although it provides little of the detail which is required to fully judge the nature or appropriateness of the proposed actions, as well as the ability to achieve these. However, our initial exploration of these points suggests they are underpinned by specific actions. For example, CLG are in the process of recruiting a supplier to develop a new combined IT system for both ERDF and ESF programmes to address the requirements of the new regulations. The current ERDF and ESF systems are separate and do not have the breadth or capacity to fulfil the new requirements (eg they do not have a document storage facility). The new development will help to address the Commission's e-cohesion agenda, providing a streamlined approach from application to end of project, as well a streamlined business process for the managing, audit and certifying authorities.

## Consultation

- 8.13 The chapter provides a fairly extensive account of the consultation to date on the approach to using ERDF through the LEPs and the broad outline of the associated delivery arrangements. It could perhaps be made more explicit that whilst there has not really been an opportunity to consult at national level on the basis of a full draft OP (e.g. the choice of Thematic Objectives and Investment Priorities, the framing of the Specific Objectives), it is CLG's view that this has not been deemed necessary as it has been constructed 'bottom up' from the LEP submissions.
- 8.14 Although there is some merit in this argument, it should be borne in mind that some national and local stakeholders which are traditionally involved in delivering ERDF (and ESF), have not been central to the development of the LEP strategies (e.g. the voluntary

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<sup>24</sup> Namely, clear roles and responsibilities for managers and partners, an alignment of the business process across funds, the use of standard documentation where possible, clear and unequivocal guidance, and better access to information.

sector and higher education sector). Our own consultations with partners highlight the concerns which some of these organisations have voiced about the lack of opportunity to be formerly consulted on the basis of a full OP document. CLG need to take steps now to ensure that these partners are engaged.

## Monitoring and Evaluation Procedures

- 8.15 The OP template does not require the Managing Authority to provide information on Monitoring and Evaluation procedures and at the time of writing, we have had relatively little opportunity to comment on monitoring and evaluation plans, although it should be emphasised that CLG has an experienced Research, Monitoring and Evaluation team in place with a strong track record of managing monitoring systems and commissioning evaluation.
- 8.16 We have not had the opportunity to review the monitoring and evaluation framework in its entirety. But as noted elsewhere, the inclusion of LDA, TA and MDA areas in a single programme, together with up to eighteen investment priorities, will result in a very complicated performance management framework. That it has to be informed by the performance of thirty nine LEPs will add a further and significant layer of complexity.

## Conclusions

- 8.17 While the ex-ante evaluators are required to consider the adequacy of human resources and administrative capacity for the management of the OP, the OP template does not provide the opportunity for the Managing Authority to provide evidence on this. Our comments are therefore based on the available information in the OP, supplemented by additional information where it is available.
- 8.18 CLG has long experience as a Managing Authority, however it has in the past incurred an error rate in excess of 2% (the rate above which financial penalties are incurred). It has put in place a range of measures to bring the error rate below 2% for the current programmes, as well as completing a review of their management and business systems for the 2007-13 programme in 2013 in order to identify lessons to be acted upon for the new programme. The lessons are, in the opinion of the evaluators, sensible and many of them have clearly been incorporated into the design of the new business process. CLG intend to test their whole business process prior to implementation.
- 8.19 The OP provides a reasonably clear and coherent statement of the proposed arrangements for the delivery of the programme. However, the key issues identified include:
- The need for more specific detail about the roles and responsibilities of the LEPs in the management of the new programme, including their roles in determining project selection criteria, the nature and timing of calls for projects, and the selection and approval of these projects.
  - An indication of the measures which should be put in place to help them overcome any weaknesses in the skills, experience and capacity of some of the LEPs to implement ERDF
  - The chapter should clearly state the basis on which members of the PMC will be appointed
  - The rationale for the choice of thematic sub-committees is not really clear, given that they appear to cover most but not all of the Thematic Objectives (e.g. TO2, 5, 6 and 7 are not obviously covered).

- The need to provide information on the management arrangements for the Sustainable Urban Development (SUD) Priority Axis in London, for which the Greater London Authority will be acting as an Intermediate Body.
- 8.20 In terms of the measures planned to reduce the administrative burden on beneficiaries, the relevant sections of the OP have been considered during the final iteration of the ex-ante evaluation. CLG has already integrated and standardised many of its business processes for the current ERDF programme. This now follows a national sets of standardised systems and processes for England.
- 8.21 Chapter 10 provides a discussion of the feedback from beneficiaries on the operation of the current programme, although it is not clear what the source or weight of this evidence is. It also notes the desire on the part of partners for the MA to develop a business process which address five dimensions<sup>25</sup>, although the OP is vague about the precise nature of the improvements which are sought. The OP chapter also sets out a number of underpinning principles which CLG is intending to adopt. Whilst the discussion in the OP is helpful, it provides little of the detail which is required to fully judge the nature or appropriateness of the proposed actions, as well as the ability to achieve these. However, our initial exploration of these principles suggests they are underpinned by specific and appropriate actions, including helping to address the Commission's e-cohesion agenda.

## 9. Horizontal Themes: Equal Opportunities

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This section needs to address the following specific EXE questions:

- The adequacy of planned measures to promote equal opportunities between men and women and to prevent discrimination.
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### Focus of the Assessment

- 9.1 The equality assessment is a requirement of the ex-ante evaluation and is intended to:
- Assess whether, in implementing the Programme strategies and priorities, due regard has been paid to equality issues
  - Inform how equality issues should be considered in the design of the Programme and in shaping implementation, including the horizontal principles
  - Identify opportunities to further promote equality in the Programme
  - Propose solutions for elimination of any potential negative impacts which may be identified
  - Assess equality data requirements of the European Commission and identify how qualitative and quantitative data should be collected to evidence the impact of the Programme.
- 9.2 Equality Assessments can be used to support adherence to the Equality Act 2010 by a public body and are generally accepted to be good practice for major policy or Programme developments. They are a systematic assessment of the likely or actual effects of policies, Programmes and developments on the following 'protected characteristics'

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<sup>25</sup> Namely, clear roles and responsibilities for managers and partners, an alignment of the business process across funds, the use of standard documentation where possible, clear and unequivocal guidance, and better access to information.

## Assessment of the Priority Axes

- 9.3 Priority Axis 1: Research and innovation. Overall, Priority Axis 1 presents opportunities for beneficial impacts as part of delivery. This Priority primarily provides opportunities to draw currently marginalised sections of the population into research and development activity, STEM careers, and innovation and enterprise. There are a number of groups – such as women and young people – who represent significant pools of untapped potential within these sectors. This Priority Axis also provides opportunities to support entry into the labour market for new graduates – who remain at risk of unemployment following completion of their studies – in these areas. However, the funds (and other, complimentary resources) will need to be appropriately targeted to ensure that the opportunities within ERDF are open to them.
- 9.4 Priority Axis 2: Enhancing access to, and use and quality of, ICT. There are opportunities for some benefits to arise from the measures contained with Priority Axis 2. Full access to ICT can be a challenge for a number of groups – most notably older people and disabled people – who may lack the skills, inclination, financial means, or opportunity to make full use of broadband or mobile communications where they own their own business. Again activities will need to be promoted and communicated effectively to reach these groups. The presumption of online access, and overuse of the ‘digital by default’ approach could present barriers to full participation of these groups in the ERDF Programme.
- 9.5 Priority Axis 3: Enhancing the competitiveness of SMEs. Priority Axis 3, if properly implemented, offers opportunities to a broad range of people with protected characteristics looking to start or grow their own business. Drawing down appropriate finance, and securing support, advice and guidance on starting a business can be particularly challenging for many sections of the population including: younger people, older people, disabled people, trans people, people from some ethnic minority and religious communities, women and LGB people. If implemented with this in mind this Priority Axis could contribute to overcoming a range of barriers faced by these groups.
- 9.6 Priority Axis 4: Supporting the shift towards a low carbon economy in all sectors. Priority Axis 4, concerning ‘the shift towards a low carbon economy’ is less likely than other Priority Axes to result in benefits for equality. However, indirectly and in the long term this shift may result in environmental improvements in areas such as air quality. This may in turn help with a minor reduction in respiratory-related conditions in certain sections of the population – such as children and older people. Any benefits are dependent on a range of external factors and are likely to come long after the 2014-2020 ERDF Programme has finished delivery.
- 9.7 Priority Axis 5: Promoting climate change adaptation, risk prevention and management. Priority Axis 5 has some potential to manage long term risks associated with environmental change. Here, mitigating the effects of and adapting to climate change may support a reduction in the impacts of the effects of climate change on groups least able to deal with them – such as children, older people and disabled people. However this Priority is focussed on system wide changes that are more likely to provide benefits to the whole population.
- 9.8 Priority Axis 6: Preserving and protecting the environment and promoting resource efficiency. No impacts or opportunities were identified within Priority Axis 6 that are directly relevant to equality. This does not mean that people with protected characteristics will not benefit from activities within this Priority Axis, merely that there is no evidence to

suggest that it will lead to disproportionate effects or specific opportunities for equality groups.

- 9.9 Priority Axes 7: Sustainable transport in Cornwall and the Isles of Scilly; and 8: Sustainable Transport. Priority Axes 7 and 8 target an aspect of transport infrastructure that has the potential to provide benefits to a number of different social and demographic groups. Sustainable transport entails support for non-motorised and public transport modes, which are used disproportionately by younger people, older people, people from ethnic minority communities, women and families with young children.
- 9.10 Priority Axis 9: Promoting social inclusion and combating poverty and any discrimination. Priority Axis 9 targets social inclusion and aims to combat discrimination, issues highly relevant to equality, Investment in this area, therefore is likely to yield a number of positive outcomes for people with protected characteristics including younger and older people, women and people from BAME groups. However, as with certain other priorities within the Programme (namely Priorities 7 and 8), the level of investment is comparatively small and as such overall effects are likely to be limited.
- 9.11 Priority Axis 10: Sustainable Urban Development. With higher density in urban populations comes greater numbers and proportions of people with protected characteristics who might be disproportionately or differently affected by the implementation of the ERDF Programme. Targeted support in these areas has the potential to deliver significant gains in terms of enhancing equality of opportunity by addressing structural barriers (such as transport, infrastructure and business support) to access, inclusion and participation.

## Overall Assessment of Effects

- 9.12 The 2014-20 ERDF Operational Programme is directed towards improving economic competitiveness (an area in which many social and demographic groups experience barriers) through research and innovation; improved business support; IT, transport and infrastructure; and sustainability measures. While many of the priorities, objectives and activities within the Programme will not provide explicit benefits in terms of equality, effects are highly likely to be positive overall. Similarly, it is highly unlikely that there will be any disproportionately negative effects on any of the characteristics protected by the Equality Act 2010 – this is a Programme of positive investment in an area of market failure and is to be expected.
- 9.13 It is, however, equally likely that without appropriate focus and targeting of resources at particular social and demographic groups (including the young, the old, disabled people, people from some BAME and religious groups, LGB people, and trans people), there is a risk of missed opportunities to maximise equality. This is particularly the case for those characteristics for which there is limited information and networks to assist in targeting of ERDF-funded activity.

## Other Aspects of the Programme

- 9.14 Consideration of equality in the development of the ERDF Programme. Overall, equality has been reasonably well integrated into the wider ERDF Operational Programme document, primarily via the 'Equal Opportunities' cross-cutting principle. There is some evidence of gaps and a number of Priority Axes make no substantive mention of issues relating to equality beyond outline reference to the cross-cutting principle. This suggests a lack of integration in practice but is partially explained by a lack of overlap between the

content of the Programme document and the equality agenda, but in some cases the need to consider equality appears to be more of an additional consideration than a fundamental principle of Programme design.

- 9.15 Implementation, monitoring and evaluation arrangements. The Programme presents a number of opportunities to secure benefits for equality groups. However, in the vast majority of cases, the realisation of these benefits is reliant on the way in which they are delivered. Careful consideration needs to be given to the requirements of people with different protected characteristics when delivering the actions under each Priority Axis. Monitoring and evaluation, and the collection of project data provides a good point of access to understanding where individual projects, as well as the Priority Axes and the ERDF Programme as a whole, are having an impact on equality of opportunity.
- 9.16 Contribution to strategic equality goals. The Programme is reasonably well-positioned to contribute to the achievement of European and UK equality ambitions. It presents a number of opportunities to support the general aim of the PSED to promote equality of opportunity between different sections of society. While some of the Priority Axes will contribute very little to the achievement of equality ambitions in England, this is not considered to be an issue and the programme is not specifically targeted in this way. It falls on the ERDF team to maximise the benefits to different sections of society through design and delivery, whilst preventing unnecessary barriers to accessing the fund.

## Remaining Issues to Address

- 9.17 Based on the findings of the EIA, the following recommendations have been made for the implementation of the Programme:
- To deliver tailored provision of actions for protected characteristic groups, through raising awareness amongst project sponsors and delivery teams and directly addressing barriers as part of project implementation.
  - To support Programme delivery organisations to draw on the untapped potential of particular groups, particularly around innovation, research and development and enterprise – areas in which groups face barriers to entry, limiting the wider potential social and economic benefits they could contribute.
  - To develop a communication strategy that includes guidance on equality and is targeted at those groups least likely to access the programme with comparative ease. Measures addressing language, disability and communication method should all be considered.
  - To include specific equality objectives and indicators in the monitoring and evaluation strategy, and ensure progress against these is monitored regularly. Monitoring and evaluation of the Programme are key to understanding its effectiveness in addressing equality issues.
  - To provide Programme delivery organisations with the opportunity to undertake equality training provision, in order to maximise their buy-in to the equality priorities of CLG and the European Commission.

# 10. Horizontal Themes: Sustainable Development

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This section addresses the following specific ex-ante evaluation question:

- The impacts on sustainable development and the adequacy of planned measures to promote sustainable development.
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## Introduction

- 10.1 This chapter presents summary of the Environmental Report prepared as part of the Strategic Environmental Assessment (SEA) of the England European Regional Development Fund (ERDF) Operational Programme 2014-2020.
- 10.2 The Strategic Environmental Assessment (SEA) Directive<sup>26</sup> and Regulations<sup>27</sup> require SEA of plans and programmes which are likely to have significant effects (either positive or negative) on the environment. In November 2013, LUC was commissioned by Regeneris Consulting to undertake the SEA component of the ex-ante evaluation.
- 10.3 In December 2013, LUC completed the first stage of SEA, Scoping, and issued an SEA Scoping Report to statutory consultees. A full SEA Report was then prepared and consulted upon, taking into account the results of the consultation on the Scoping Report. In June 2014, LUC completed SEA of an emerging draft of the ERDF Operational Programme. The draft SEA Report was published for consultation in July 2014 and the results of the consultation on the SEA Report have been taken into account in the final SEA Report.
- 10.4 The ERDF Operational Programme is high-level in nature, describing broad objectives, investment priorities and indicative actions rather than specific projects in specific locations. It is recognised that this is a feature of Operational Programmes in general and that the 2014-2020 programming period, in particular, imposes a limit on the level of detail that can be included. Nevertheless, the result is that it has been difficult to carry out detailed analysis of the effects of the ERDF Operational Programme through the SEA. Consistent with the lack of geographic specificity in the ERDF Operational Programme, the SEA does not provide an assessment at a sub-national geographical level. Instead, a high level, qualitative assessment has been carried out for England as a whole.
- 10.5 The SEA process assesses the likely effects of the proposals for the ERDF Operational Programme, and the alternatives to them. The first stage is Scoping which sets out the proposed method and approach to the assessment in a scoping report and is informed by engagement with the statutory consultation authorities, Natural England, English Heritage and the Environment Agency.

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<sup>26</sup> Directive 2001/42/EC of the European Parliament and of the Council of 27 June 2001 on the assessment of the effects of certain plans and programmes on the environment

<sup>27</sup> The Environmental Assessment of Plans and Programmes Regulations 2004 (SI 2004 No. 1633)

- 10.6 The full assessment process is based around a set of environmental topics and related criteria (the 'SEA Framework'). This provides the structure for identifying the likely effects on the environment of the proposals within the ERDF Operational Programme, both individually and collectively.
- 10.7 The assessment has focused on the environmental effects of the ERDF Operational Programme's objectives and investment priorities, taking into account environmental protection policy objectives and current environmental conditions in England. The environmental effects of reasonable alternatives to the approach proposed by the ERDF Operational Programme were also assessed.

### Habitats Regulations Assessment

- 10.8 Under Regulation 61 of the Habitats Regulations the competent authority (in this case the Government), is required to carry out an Appropriate Assessment of the implications for a European site before deciding to undertake, or give any consent, permission or other authorisation, for a plan or project which is likely to have a significant effect on a European site or a European offshore marine site (either alone or in combination with other plans or projects), and is not directly connected with, or necessary to, the management of that site.
- 10.9 The need for an assessment under the Habitats Regulations was considered at the SEA Scoping stage. It was concluded that the Habitats Regulations do not apply to the ERDF Operational Programme because:
- It is neither a plan or project, but a programme
  - The high level nature of the activities likely to be included in the Operational Programme will mean that it will not be appropriate or practicable to identify a pathway by which the Operational Programme could affect the integrity of a European site.
- 10.10 All specific plans and projects put forward for funding under the ERDF Operational Programme will be required to undergo Habitats Regulations Assessment by the relevant competent authority insofar as it is relevant to do so, prior to the plan or project receiving consent, permission or authorisation.
- 10.11 In its representations on the SEA Scoping Report<sup>28</sup>, Natural England endorsed this approach and the advice given to those implementing the projects that will derive from the ERDF Operational Programme.

## The Strategic Environmental Assessment

- 10.12 A variety of mainly positive significant effects were identified from individual Thematic Objectives within the ERDF Operational Programme, as detailed in the SEA Report. In addition to these, cumulative effects also arise through the action of multiple elements of the ERDF Operational Programme on a single environmental topic. These effects are, in some cases, further mitigated or enhanced by the requirements that the ERDF Operational Programme's 'Horizontal Principles' or 'cross-cutting themes' of Sustainable Development and Equal Opportunities and Non-Discrimination place on projects that may come forward to deliver the Thematic Objectives. The effects of the Sustainable Development Horizontal Principle are outlined later in the section. All of these factors

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<sup>28</sup> Email correspondence from Natural England to LUC dated 6 February 2014



have been considered to provide the following conclusions on the environmental effects of the Operational Programme as a whole.

- 10.13 Many of the activities in the ERDF Operational Programme are unlikely to have direct effects on the environment, given that they deal with matters such as information technology, research and innovation, training and up-skilling of the workforce. However, the ERDF Operational Programme has the potential for some, mainly indirect, negative effects on the environment, largely related to its support for economic growth and the additional built development and transport movements that are likely to result from this. At the same time, its objectives and investment priorities support a variety of actions that should help to decouple greenhouse gas emissions and resource use from growth and mitigate other environmental impacts associated with economic activity.
- 10.14 Many of the identified environmental effects are subject to considerable uncertainty at this stage due to the high level nature of the Operational Programme and lack of information available about the specific projects to be supported or their locations.
- 10.15 Many of the potential negative environmental effects are judged to be minor in scale because of the safeguards that should operate when individual projects are proposed. These safeguards are assumed to be operated by those bodies responsible for governing the ERDF Operational Programme and for selecting projects for funding, in line with the requirements of the Programme's Horizontal Principles of Sustainable Development and Equal Opportunities and Non-Discrimination. In addition, where physical development is supported, environmental effects should be assessed and avoided, reduced or offset through England's applicable project-specific assessment, consenting and regulatory processes.
- 10.16 The SEA of the ERDF Operational Programme identified a number of opportunities for mitigation of negative environmental effects or enhancement of positive environmental effects and these are set out in the main SEA Report.
- 10.17 The SEA Report also provides an assessment of reasonable alternatives considered by DCLG when developing the ERDF Operational Programme as well as initial suggestions for monitoring the significant environmental effects identified by the SEA.

## Sustainable Development as a Horizontal Principle

- 10.18 In addition to the effects of individual Thematic Objectives, cumulative effects also arise through the action of multiple TOs on a single environmental topic. These effects are, in some cases, further mitigated or enhanced by the requirements that the ERDF Operational Programme's 'Horizontal Principles', including that of Sustainable Development, place on projects that may come forward to deliver the TOs. The effects of the Sustainable Development Horizontal Principle have been considered in this context, as follows:

### BIODIVERSITY, FLORA AND FAUNA

- Mitigation of potential negative effects of the ERDF Operational Programme on this SEA topic is available from the Sustainable Development Horizontal Principle. This stipulates that all funded projects must identify how they support green infrastructure and contribute to the EU commitment to halting biodiversity loss and degradation of ecosystem services.

### POPULATION

- The effects of the ERDF Operational Programme as a whole on this SEA topic are not expected to be greatly affected by the Sustainable Development Horizontal Principle, although I is considered in more detail as part of the Equality Assessment.

#### HUMAN HEALTH

- The effects of the ERDF Operational Programme as a whole on this SEA topic are not expected to be greatly affected by the Sustainable Development Horizontal Principle.

#### SOIL

- The Sustainable Development Horizontal Principle provides no specific mitigation of potential negative effects of the ERDF Operational Programme on soils but stipulates that proposals demonstrate how environmental protection will be enhanced. The principle also requires that projects reflect the 'polluter pays' principle, which it also notes that this is a feature of existing UK environmental law.
- It is recommended that the Sustainable Development Horizontal Principle be expanded to include a specific requirement for supported projects involving built development to demonstrate how they have considered the protection and enhancement of soils by the efficient use of previously developed land, remediation of contaminated land or avoidance of the best and most versatile agricultural land.

#### WATER

- Mitigation of potential negative effects of the ERDF Operational Programme on this SEA topic is provided by the Sustainable Development Horizontal Principle. This requires that investments demonstrate a proactive approach to minimising water consumption and drainage off site and that capital proposals for new or refurbished buildings achieve high sustainability ratings in the Building Research Establishment Environmental Assessment Methodology (BREEAM) and the Civil Engineering Environmental Quality (CEEQUAL) assessment and award schemes.

#### AIR

- The Sustainable Development Horizontal Principle provides no specific mitigation of the potential negative effects of projects supported by the ERDF Operational Programme on air quality but stipulates that proposals demonstrate how environmental protection will be enhanced.
- Positive effects may indirectly be enhanced by the principle's stipulations that proposals demonstrate support for a low carbon economy and resource efficiency. It is recommended that the Sustainable Development Horizontal Principle be expanded to include a specific requirement that supported projects consider how they will minimise polluting emissions to air.

#### CLIMATIC FACTORS

- The Sustainable Development Horizontal Principle will help to enhance the ERDF Operational Programme's positive effects on reducing carbon emissions and climate change adaptation and help to offset the additional emissions likely to be associated with economic growth. This is through a variety of requirements for supported projects including showing how they: support moving towards a low carbon economy; integrate adaptation and local resilience to a changing climate; support for green infrastructure; attain recognised sustainable building standards; and demonstrate a proactive approach to energy efficiency, minimising water consumption and off-site drainage.

#### MATERIAL ASSETS

- The Sustainable Development Horizontal Principle will help to enhance the ERDF Operational Programme's positive effects on this topic by requiring funding applicants to demonstrate how resource efficiency is embedded into the business support offer.

## CULTURAL HERITAGE

- The Sustainable Development Horizontal Principle is judged not to have any effect on this SEA topic. It is recommended that the Horizontal Principle be expanded to include a specific requirement for supported projects to demonstrate how they will consider conservation and enhancement of the historic environment, heritage assets and their settings and provide opportunities for heritage-led regeneration.

## LANDSCAPE

- The Sustainable Development Horizontal Principle is judged not to have any effect on this SEA topic. It is recommended that the Horizontal Principle be expanded to include a specific requirement for supported projects to demonstrate how they will consider the avoidance of adverse impacts on protected landscapes, the strengthening of landscape distinctiveness and reduction of noise and light pollution.

