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## 1 INTRODUCTION & EXECUTIVE SUMMARY

This is the North East of England Regional Competitiveness and Employment ERDF Programme 2007-13. It has been prepared for Government Office for the North East and One NorthEast with steering input from a Project Board comprising representatives of the regional Partnership.

The Programme will bring some £250m of ERDF support to the region.

The Programme Document has developed from a systematic process which, prior to deciding on the Strategy has considered range of factors, with particular attention being paid to:

- the socio-economic situation in the North East of England and the strategic issues that flow from this.
- the policy context and practical issues that suggest where the ERDF resource can be most effectively deployed.
- the flow of funds in the region and trends in resource use.

The shape and content of the Programme has also been influenced by a consultation process which ran from 9 January to 2 April 2007. In addition, the comments of consultants carrying out an ex ante evaluation and a Strategic Environmental Assessment have been taken into account.

The context for this North East ERDF Programme is very different to the context for past programme periods; due in particular to the relative strength of the UK economy within the EU, and the enlargement of the EU to the East. It is important to note that, compared to the large scale European programmes of the past, the new Programme allocates a relatively limited ERDF resource for the North East. This resource is being deployed against the background of particular policy agreements reached at European level, as well as the regulatory framework for European funding. It is neither feasible nor practical for ERDF to fund as broad a range of activity as it has in the past. The regional context has also changed, with economic priorities now clearly outlined in the Regional Economic Strategy (RES). Accordingly, it is proposed that ERDF resources be aligned with a limited number of the RES priorities, where the characteristics of the funding will maximise its regional benefit. This is not to say that other agendas will not be resourced. The targeting of ERDF will be taken into account within the RES Action Plan process which will consider the resource needs of all RES priorities.

Within this context, a vision for the Programme has been developed:

The North East Competitiveness OP will by 2015 have made the region a more cohesive, ambitious and attractive place in which to invest and work based on the creation of a modern, innovation focused economy that is well placed to exploit the economic and social opportunities associated, in particular, with renewable energies and technologies that contribute towards a healthy environment. It will strengthen the region's entrepreneurial culture and grow the region's business base resulting in an outward facing regional economy and society that is self reliant and confident of its ability to compete in the global market place.

The Programme has a quantified Global Objective as follows:

By 2015, to increase GVA per capita in the North East towards 90% of the UK average in a sustainable manner through actions leading to:

- increased business density as a result of the creation of 3000 new businesses, of which 15% in disadvantaged areas.
- the creation/safeguarding of 28,500 gross jobs of which at least 10% in disadvantaged areas.
- an increase in R&D expenditure as a percentage of regional GVA of 0.2%
- improved environmental management and energy efficiency in 2,850 assisted businesses.
- increased productivity among the region's businesses resulting in an increase in £1.1bn in regional GVA per annum<sup>1</sup>.

The Global Objective will be pursued through a strategy comprising three Priorities weighted as follows:

- Priority One: Enhancing and Exploiting Innovation (53%).
- Priority Two: Business Growth and Enterprise (43%).
- Priority Three: Technical Assistance (4%).

Three themes will run throughout the priorities and influence the delivery of the Programme: the cross cutting themes of environmental sustainability and equality of opportunity, as required by Regulation, and an additional cross cutting focus on addressing spatial disparities within the region.

Delivery of the Programme will be overseen by a Programme Monitoring Committee, chaired by the Regional Director of Government Office for the North East, with day to day management being carried out by One NorthEast

The remainder of this Programme Document comprises:

- Chapter 2: a summary of the socio-economic analysis.
- Chapter 3: a summary of the SWOT analysis.
- Chapter 4: the strategy, its derivation and strategic priorities.
- Chapter 5: an outline of the cross-cutting themes of environmental sustainability and equal opportunities.
- Chapter 6: co-ordination between funds
- Chapter 7: implementing provisions
- Chapter 8: financial tables
- Chapter 9: summary of the ex ante evaluation
- Chapter 10: summary of the Strategic Environmental Assessment
- Chapter 11: the Policy Context
- Annex: Performance Indicators, Definitions and Monitoring Guidance
- Annex: Detailed RDA structure and financial flow chart

This main document is supported by several annexes, as follows:

- Annex 1: the socio-economic analysis in full.
- Annex 2: the environmental profile.
- Annex 3: the SWOT analysis in full.
- Annex 4: summary of response to the consultation process.

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<sup>1</sup> By 2015, regional GVA is forecast to be increased by £1.1bn per annum over the value that would have prevailed in the absence of the Programme. By its end, the Programme is forecast to produce a sustainable uplift in regional GVA per annum, equivalent to 3% of the 2004 level.

- Annex 5: equality impact assessment – screening report
- Annex 6: the ex ante evaluation
- Annex 7: the Strategic Environmental Assessment

## **2 SUMMARY SOCIO-ECONOMIC ANALYSIS**

### **2.1 General**

This Chapter presents a summary of findings from the socio-economic analysis which forms the core evidence base of the Programme. It has been prepared taking account of guidance provided by DCLG and the European Commission, respectively. The full socio-economic analysis is to be found in Annex I.

### **2.2 Summary of Eligible Area – Strengths and Challenges**

The North East stretches for 100 miles north-south from Berwick-upon-Tweed to Darlington. At its greatest east-west dimension, it is 80 miles from Saltburn-by-the-Sea to the border with North West England. Around half of the region's area is classified by DCLG as sparsely populated, mainly in the rural north and upland west.

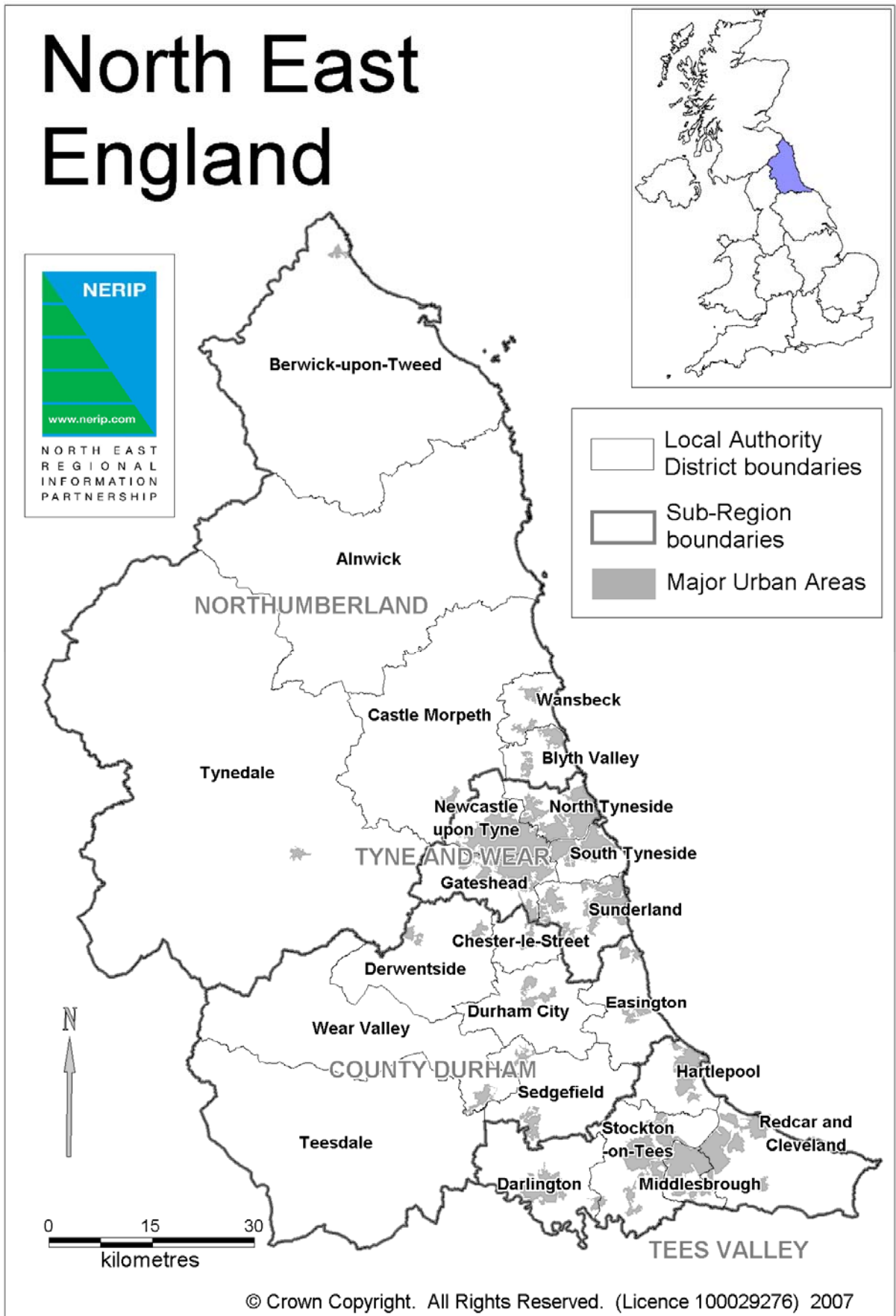
The coastal fringe is almost continuously urbanised from Newbiggin-by-the-Sea southwards to Saltburn-by-the-Sea and urbanisation extends significantly up the Tyne, Wear and Tees valleys. Out of a population 2.55m in 2004, some 72% live in urban areas, primarily those along the Tyne, Wear and Tees valleys while some 88% work in urban areas.

The pattern of settlement in the North East reflects an economic rationale that is largely historic. The region progressively became urbanised from the earliest stages of the Industrial Revolution in the 18th Century, with population becoming concentrated along the valleys of the Tyne, the Wear and the Tees. Slightly later, a sizable but more dispersed population became located in the coalfield areas of South West and East Durham.

The general characteristics of the region, including the settlement pattern, are shown on Map 1.

The North East economy has traditionally lagged behind the UK average. But, within the context of a strong UK economy over the last 10 years, there are signs that the region has at last begun to turn the corner. The most recent data on GVA suggests the region's economy has been growing faster than the UK as a whole, for the first time since the recession of the early 1990s. This provides a strong basis on which to build, and in particular to address the underlying structural barriers to greater economic opportunity, particularly amongst excluded communities. This section considers those structural challenges in more detail.

The North East has a population of around 2.55 million. The region's population was on a general downward trend during the 1980s and 1990s but since 2002 the North East population has seen year on year increases due largely to recent increased international immigration. Similarly, the region's working age population has been increasing each year since the turn of the century. National Statistics projections indicate that the North East total population will continue to increase over the next two decades but because the population profile is ageing the working age population will stop growing by around 2010 and then begin to decline. The North East currently has a higher proportion of population of pension age or above than the English average and the population aged 60 years or above is projected to increase from 22% to 27.5% by 2021. Working age population decline has implications for future labour supply in the North East, as well as for the size and segmentation of markets within the region.





Since expansion of the EU in 2004, there has been a significant influx of migrant workers into the North East. If sustained, recent projections suggest that the overall size of the working-age population may remain relatively stable through to 2023. However, the average age within the working-age population will continue to rise, placing a premium on securing higher levels of labour market participation among those aged 50 years and over.

In the past decade, dramatic progress has been made in transforming the environment in the larger urban centres of the North East. Sustained economic growth since the mid-1990s has seen growth in both wealth and jobs, but at a lower rate than at national level.

The North East experienced an increase of around 60,000 jobs between 1998 and 2004. This increase of 6.3% is only slightly lower than the average for England (6.5%). Nevertheless, pressure has continued on the manufacturing sectors through this period, during which some 110,000 jobs were created in the service sectors. Although there has been some growth in the knowledge economy, many new service sector jobs are in low value-adding private sector activities, such as retail, tourism and leisure, and half are in the public sector, particularly education, where recent growth may not be sustained. The experience of the early 1990s suggests that the overall pattern of recent employment growth is unlikely to be resilient in the event of recession.

Despite a halving of the employment rate gap since 1998, further progress needs to be made in creating employment opportunities for the region's working age population. This would help to address relatively high levels of unemployment, labour market inactivity and social and economic exclusion. While the North East has experienced a higher rate of decline in unemployment and the number of people classed as economically inactive in comparison to England as a whole, the proportion of people aged 16 years or over who are classed as economically inactive remains significantly higher than the English average.

Manufacturing jobs, which are usually associated with relatively high Gross Value-added (GVA) per job, have been declining, though this is not unique to the North East. Decline has been most prominent in lower added-value activities such as textiles. Although the North East has traditionally had a higher representation of jobs in manufacturing than the English average, this trend is changing, with a fall in the proportion taking manufacturing representation closer to the national average. The shrinkage of traditional manufacturing in the North East emphasises the need to develop higher value-added products and services using the region's science and technology strengths.

The North East has relatively low GVA, with GVA per capita just under 80% of the UK average. The recent progress report on the Regional Economic Performance Public Service Agreement target, published with the Pre-Budget Report, noted progress in the northern regions, but was cautious about drawing any conclusions on the relative productivity performance of the regions.

The North East has a long-standing enterprise deficit. The North East has 266 businesses per 10,000 population, significantly lower than the 394 average for England. However, although start-up and survival rates have improved in recent years, net growth in the number of businesses still lags being the average for England with the result that disparities in business density are continuing to widen. Around 29,500 additional businesses would be required in the North East for the region to have a business density comparable with the national average.

Despite strong competencies within the HE sector in the North East and higher than average HEI R&D expenditure – HEI R&D expenditure contributes 0.5% to North East GVA (higher than the national average) -the problem remains that R&D from other sectors in the region remains weak – between 1998-2003 NE R&D as a proportion of GVA was half the England average, as such overall R&D expenditure in the North East is low, in fact in 2004 total R&D expenditure (as a proportion of GVA) was 0.9%, this figure is the lowest of all the English

regions. For the region to develop competencies in high value adding sectors, greater investment in R&D is required to enable businesses to explore new markets, develop process and product innovations, improve efficiency and raise productivity levels.

While the qualifications profile of the North East's workforce has been improving in recent years, skill levels remain low in comparison to averages for England, with a higher proportion of economically active people with lower level qualifications and a lower proportion with higher level qualifications. Low skill levels will potentially constrain the development of high value-adding sectors in the North East, which will require highly skilled workers.

The North East has good natural amenities including national parks, areas of outstanding natural beauty and coastlines, as well as improved cultural facilities and activities which provide strong tourism potential. The good quality of life of the region also adds to place competitiveness helping to attract people to live, work and invest in the region. However, the challenge of future economic development is to create wealth while reducing environmental impacts. Strong growth in the regional economy will present environmental challenges, notably in conserving a more heavily used natural environment and in managing resource use and CO<sub>2</sub> emissions caused by increased use of private transport. The North East has substantial capacity to develop the renewable energy sector, which represents both an economic opportunity (business growth/start-up potential) and environmental opportunity (clean and lower carbon energy).

Economic progress and restructuring over the past decade has been uneven. Economic decline and a change in the role of rural areas towards being residential areas has reinforced the role of urban areas as economic centres. This trend has been particularly strong in the Tyne and Wear and South East Northumberland conurbation which has developed to become a functioning city region. Similar trends are present in Tees Valley, but are not so strong and the pattern of settlement has resulted in growth being more dispersed. Thus, while the overall position has improved, progress has been less evident in some parts of the region.

In summary, while the North East economy has made progress in recent years, it is still distinguished by the following characteristics:

- low levels of enterprise, which has constrained employment growth.
- low productivity –substantially reflecting the composition and recent evolution of economic activity.
- Small regional market – placing a premium on exploiting opportunities that are external to the region.
- Spatial concentrations of weaknesses in human resources and economic activity – which are a reflection of the pattern of settlement reflecting a historic economic rationale and the existence of factors that restrict adjustment of markets.

## **2.3 Employment**

### **2.3.1 General**

The scale and composition of employment are fundamental to the economic and social prosperity of regions. Technical change and global competition represent challenges to the sustainability of existing employment patterns and are reflected in the Lisbon agenda for more and better jobs. While regions must seek to secure a favourable evolution in sectoral structure, a high level of and broad participation in employment have an important part to play in the sustainability of communities and in accommodating changes in society such as longer working lives and more numerous, smaller, family units.

The North East experienced a 6.3% increase in employment (60,000 jobs) between 1998 and 2004 and narrowed the gap in employment rates compared with the national average, but the ratio of jobs to working age population in the North East remained some 10% below the England average. Relatively high levels of unemployment, labour market inactivity and social and economic exclusion persist.

### **2.3.2 Employment by Sector**

The North East economy has undergone significant restructuring in recent years. Jobs in traditional industries that include high value added jobs, particularly in manufacturing, have been declining due to stiff competition from overseas. At the same time jobs in public services and private services have been increasing. Despite growth in the number of jobs in private service sectors, the North East is still under-represented in nearly all private service sectors in comparison to England, and has a significantly higher proportion of employment in public services.

Some of the main growth sectors in the North East in terms of employment, such as wholesaling, retailing, hotels and restaurants and the public sector, will not be eligible or will be a low priority for support from the Competitiveness and Employment ERDF Programme. These sectors include the public sector, retail and some competitive private service sectors where there is limited market failure and/or likely high displacement.

In 2004, the North East still had a slightly higher proportion of employment in medium-high technology industries (5.4%) compared to the England average (4.3%), but the rate of decline of jobs since 1998 was much higher, with a third of jobs under this classification lost.

While there was an overall growth in jobs in the North East between 1998 and 2004, much (but not all) of this employment has been in lower value-adding public sector and private service activities such as recreation, wholesaling and retailing. When combined with the loss of relatively high value added jobs in manufacturing over the same time period, evolution of the North East economy continues to exhibit a low value adding structure. This trend has meant that the productivity gap and low GVA per capita in the North East persist, despite the increase in the number of people in employment.

### **2.3.3 Joblessness**

Nearly a quarter of working age people in the North East are economically inactive. While the economic inactivity rate has declined in recent years, it remains almost 20% higher than the UK average. Levels of inactivity vary across different parts of the region, with the highest concentrations in Newcastle, Middlesbrough and the former coalfield areas of County Durham.

The overall increase in economic activity since 1999/2000 has been down to reduced female inactivity and the rise of more flexible employment in service sectors, which tend to attract a high proportion of female labour. Levels of male inactivity over the same time period increased and reflected contraction of industrial sectors in which males have historically been numerically dominant.

The highest economic inactivity rates in the North East are for the 16-19 and 50-retirement age groups. Unemployment and inactivity among young people in the North East is significant, with 17% of 16-18 year olds not in employment, education or training (NEET) in spring 2005, significantly higher than the 10% average for England. The high level of young people so affected in the North East suggests a shortage of, or strong competition for, entry-level jobs. The economic inactivity rate for people aged 50 to retirement is 10% higher than the England average and perhaps reflects the process of industrial restructuring in the

North East, which has meant that many older people who become economically inactive have out of date skills and difficulties re-entering the labour market.

Despite a decrease in unemployment in the North East in recent years, unemployment remains high in comparison to the UK average. The gap between the North East and UK unemployment rates has decreased, however, and the long-term unemployment rate in the North East has now fallen below the UK average.

The majority of jobless people in the North East are economically inactive, indicating that they may need to overcome significant and/or multiple barriers to (re)enter the labour market. Claimants of Incapacity Benefit (158,380) for example outnumber JSA claimants (49,865) three to one.

The North East has the highest proportion of workless households for any UK region. In spring 2005, it was estimated that 22.6% of households in the North East were workless, compared to the 16.6% UK average. Higher levels of workless households are indicative of low disposable income, which has an impact on local demand for goods and services. It is also estimated that one in five children in the North East live in workless households, which emphasises the need for effective policy action to improve prospects for working age adults and the next generation.

## **2.4 Competitiveness**

### **2.4.1 General**

The competitiveness of regions is essentially an ability, in a situation of open markets, to maintain or expand the regional economy. It is the outcome of a complex equation involving enterprise, innovation, skills and environment, among other variables. A competitive economic environment provides an incentive for businesses to innovate and to invest regularly to remain in a position to exploit opportunities in a changing market place. Competitive businesses and places are associated with higher value-added, higher wages and social prosperity. Competitiveness is also associated with higher levels of trading outside the region which not only increases scope for growth, but enhanced economic resilience through diversification of markets.

### **2.4.2 Productivity**

The North East retains a greater dependence on manufacturing and public services in terms of contribution to GVA than England as a whole. Despite a slightly larger than average share of manufacturing where GVA per employee is above the national average, the North East's average labour productivity remains relatively low across construction and most service sectors which have accounted for most of the employment created in the region in recent years

Labour productivity in the North East, as measured by GVA per worker, was significantly below the England average in 2005. The average GVA per worker in the region was £34,102 compared with the national average of £38,920. The largest productivity gaps appear within the Financial intermediation and Real estate, renting and business activities sectors, while within public services there is a significant gap in GVA per worker performance between the region and the national average in the Public administration and defence sector.

Low productivity affects the ability of the North East's businesses base to compete both on cost and quality and is a reflection of innovation and of past investment in capital and human resources. The North East has low productivity by UK standards, and the UK itself faces a significant productivity challenge in competition with other advanced economies.

Productivity is also affected by the efficiency of use of material resources, energy and transport within businesses.

### **2.4.3 Key Sectors**

A number of key sectors have been identified for the targeting of support in the RES, with the selection criteria based on the contribution to GVA and employment, the future growth opportunities they present and/or the potential to increase levels of participation. The key manufacturing sectors identified are Automotive, Chemicals and Pharmaceuticals, Defence and Marine, Energy and Food and Drink. Four sectors within Services have also been prioritised: Knowledge Intensive Business Services, Tourism and Hospitality, Commercial Creative and Health and Social Care.

The Automotive industry is driven by the presence of Nissan in Sunderland, which contributes around £400 million to the local economy annually, and accounts for more than a third of the industry's workforce. Tees Valley provides the base for the region's Chemicals industry, accounting for around 20,000 jobs and 10% of regional GDP, while the sub-region's Petrochemical cluster is the largest integrated chemicals complex in the UK in terms of manufacturing capacity. The Pharmaceutical industry is concentrated in the south of Northumberland, is well established and characterised by high levels of productivity and investment.

Elsewhere in manufacturing, there are long-term market opportunities for the Marine and defence sector, which is being supported by a growing base of high tech companies in the defence and homeland security sector. In Energy, the region is characterised by strong sub-sectors including power generation, oil and gas, nuclear, renewable and low carbon technologies, and there is a high level of associated R&D activity within the academic base. Food and drink is a well-established sector in the region, with the majority of employment associated with secondary processing, an area that offers key linkages to high growth areas of the food market.

Knowledge Intensive Business Services (KIBS) are considered crucial as a means of increasing regional productivity. Presently, value-added KIBS is under-represented in the region, although there has been some recent growth through inward investment and acquisitions. Strong regional growth has been demonstrated in Tourism and Hospitality, with visitors drawn to Newcastle-Gateshead as a short break destination, as well as rural locations in Northumberland. The sector currently employs around 30,000 people directly, contributing around £2 billion to the regional economy annually.

Other Services-related opportunities have been identified around the Commercial Creative and Health and Social Care sectors. The Commercial Creative industry employs 59,000 people in the region and the business base generates annual turnover of £2.6 billion. Graduate retention is considered important, as is the development of iconic flagship projects as cultural hubs. The public sector is the main employer in the Health and Social Care industry, which accounts for 13% of the total regional workforce. Hospitals are the main industry strength in export terms. The industry has also developed relationships with the emergent bioscience sector and is anticipated to grow in line with demographic changes.

### **2.4.4 Regional Market**

The physical make-up of the North East means that it sits within a relatively constrained regional market. The region's population only sums 2.5 million and is relatively isolated from other major centres of population. At 297 people per square km, population density is significantly lower than 385 people per square km England average. Theoretical studies indicate that relatively small and dispersed populations, such as are found in the North East, are associated with less diverse business bases and less dynamic markets.

Lower than average earnings in the North East have contributed to the region having the lowest average disposable income level for any English region. The level of disposable income is also depressed by the North East's greater extent of inactivity and unemployment.

The markets and pool of labour accessible to businesses in the North East are affected by cash-in-hand work, or the 'black economy', where businesses that avoid paying taxes and social contributions undercut legitimate businesses in terms of cost. The North East and the West Midlands have the highest proportion of businesses reporting negative effects from the black economy for any English region.

#### **2.4.5 Exports**

The North East has a stronger exports base than England as a whole, with exports contributing to 23.5% of regional GVA, in comparison to the 17.7% average for England. Despite having low business density and only 2.4% of exporting companies within England, the North East's share of total exports of goods for England, at 5.3%, is slightly higher than the region's share of population. Exports by value are concentrated in a limited number of sectors and markets, European trade in chemical, pharmaceutical, biotechnology and automotive markets being notable. However, a substantial number of smaller exporters serve a diverse range of markets.

Major export destinations for the North East are EU countries, particularly the Netherlands, Germany and France. Demand for goods and services is increasing from New Member States, fuelled by EU structural support and weak domestic capacity to internalise benefits. The EU now has a larger population than both Japan and the US and as a result, presents opportunities for the North East to make the most of being such a large trading block.

The North East is seeing increased trade with the Asian/Oceanic economies, with a 53% increase in trade between 2002 and 2004, significantly higher than the 16% increase for the UK as a whole. The North East has also increased trade with other non-EU emerging markets, including Brazil, resulting in the EU market accounting for 62% of total exports in 2004, down from 73% in 2002.

#### **2.4.6 Connectivity**

Infrastructure plays an important role in ensuring the competitiveness of the North East economy, such as by enabling businesses to access markets and labour. The North East has relatively good external connectivity by rail, road and air. The region has strong north-south rails links, and north-south road links are good as far north as Morpeth. However, the east-west trunk routes and the A1 north of Morpeth, are only partially dualled. There has been a dramatic improvement in the range of external air services from the North East over the last 5 years.

Internal connectivity is also relatively good, but commuter services in rural areas and parts of Tees Valley are less developed than elsewhere, with implications for labour market access.

The ICT infrastructure in the North East is another important factor for enabling access to markets. The North East has the best broadband availability outside London, but take-up has been low among both businesses and private households. Concern remains that businesses are not fully exploiting the potential for increased market reach and improved productivity that are potentially available through the application of advanced ICTs.

## **2.4.7 Sites and Business Premises**

Availability and affordability of suitable sites and business premises can be an important factor for attracting investment and improving place competitiveness. In 2007, there is an adequate supply of sites and land in advanced stage of preparation in the North East. In the medium term, development of further sites in Tyne and Wear will be necessary.

Between 2001 and 2005, there was a 36% increase in the total occupancy of office space in the North East and office accommodation is now in the mid range in terms of cost. There was a 15% rise in take up of industrial floor space over the same time period, although the cost of industrial property in the North East remains lower than in other areas of the UK. Over the past 5 years, market failure in the supply of sites and premises has reduced and is now mainly associated with peripheral urban and rural areas and in particular segments of the market, notably start-up accommodation where low rentals and greater turnover in occupiers is unattractive to developers.

## **2.5 Enterprise**

### **2.5.1 General**

The rate of formation of new businesses is a critical issue for regional economies as it is closely correlated with innovation and is an important part of the process through which the structure of the economy is renewed and employment sustained in the long term. The formation of new SMEs and offshoots of existing businesses enhances productivity and employment by increasing competitive pressures within the economy. Economies that demonstrate higher levels of business 'churn' tend to be more sustainable as they adapt and respond to trends and challenges in the wider market place. The dispersal of enterprise culture has a positive role to play in social change and community regeneration. The North East's disadvantaged communities are associated with very low levels of enterprise.

### **2.5.2 Entrepreneurship**

Levels of entrepreneurship are low in the North East, with one in 12 people in self-employment compared to one in 8 for Great Britain, and total entrepreneurship activity as a percentage of the total adult population (TEA) of 4.6% compared to 6.3% for the UK as a whole. The gap in entrepreneurship levels in the North East remains wide and persistent.

Low levels of entrepreneurial activity in the region can be understood in the context of the North East's economic history. This has been characterised by a strong employment culture, the existence of large employers in the manufacturing and primary industries and a reliance on the public sector for employment opportunities.

### **2.5.3 Business Start Ups**

In 2004, VAT registrations as a proportion of the total stock of VAT registered businesses was the second lowest for any English region at 9.4% and lower than the English average of 10.2%. A higher proportion of VAT registrations were for less knowledge intensive industries than the England average.

The 3-year survival rate for businesses in the North East has improved considerably since 1997, to the point where in 2004 it was fractionally ahead of the England average.

Access to finance for new business start-ups has been identified as barrier, notably affecting women and social groups with limited collateral. However, funding for larger start-ups and growing businesses has also been identified as problematic. Significant gaps in funding have been identified in the £50K-£2m range. Between 1998 and 2004, the North East received only 1.6% of total UK venture capital investment.

#### **2.5.4 Business Density**

The North East has the lowest VAT business density for any UK region, with a business density of 266 businesses per 10,000 population, compared to the 394 average for England. Around 29,500 additional businesses would be required to bring the North East up to the national average.

While there was a 4.9% (3,200) increase in the number of business units in the North East between 1998 and 2004 growth was significantly lower than for England as a whole, resulting in a widening of the gap in the number of businesses per 10,000 population between the North East and England. A considerable challenge in the North East will be stabilisation of this trend and increasing growth in the number of business units in the North East so that it exceeds the England average and begins to make an impact on reduction of the gap.

#### **2.5.5 Constraints on Enterprise Development**

Research into the performance of businesses in the North East suggests weaknesses in management processes, in particular, poor appreciation of market requirements and weak financial management. Weaknesses have also been identified in developing new products/services, developing new markets, networking and HRD. This research suggests that businesses in the North East may be more vulnerable to changing markets and have less capacity to be innovative.

There is a relatively small population of medium-sized businesses in the North East that are prime targets for sectoral interventions to stimulate growth. Comparatively few (18%) businesses in the North East have an annual turnover of more than £500,000 and, of these, the majority are in activities that are a low priority for public support.

### **2.6 Innovation**

#### **2.6.1 General**

A culture of innovation within the public and private sectors is an important source of regional competitiveness and sustainability. Innovation, based on the introduction of new products and processes and knowledge-related activities, is a major factor in raising levels of competitiveness and a driver of productivity in the long term. Given that EU economies can no longer compete on the basis of low costs, the need to focus time and resources on innovation and knowledge is becoming one of the key issues facing businesses across a range of sectors. While technical innovation is important, innovative approaches to business practice, such as co-operation on areas of common interest or the adoption of flexible working practices can increase the competitiveness of the regional public and private sectors.

#### **2.6.2 Endowment and Capacity of Technology Institutions**

The capacity of technology institutions and the quality of their interaction with the business base is strongly correlated with the level of technical innovation within regions.



Over the past 6 years, the North East has invested in building critical mass in research specialisms that build upon the research strengths of the region's five universities and are related to the needs of existing and emerging industrial sectors. Five Centres of Excellence have been developed:

- the New and Renewable Energy Centre (NaREC) at Blyth in Northumberland.
- the Process Industries Innovation Centre (CPI) at Wilton on Teesside
- the Centre of Excellence in Life Sciences (CELS) in Newcastle.
- the Centre of Excellence in Digital Technology and Digital Media (Codeworks) operating through initiatives in Newcastle, Northumbria, Sunderland and Teesside Universities.
- the Centre of Excellence for Nanotechnology and Photonics and Microsystems (CENAMPS) in Newcastle.

These centres are a focus for research and development and, in some cases, for business incubation and cluster development. The focus of future development of the region's technology infrastructure will increasingly be directed towards the strengthening the application of intermediate technologies.

Evaluation of past Programmes and other research in the North East has highlighted a weak level of collaboration between universities and local firms in fundamental research, mostly due to the relative weakness of research in the North East business base and the fact that most innovation is taking place in small firms. HEIs are attempting to overcome these barriers by involving firms in activities funded by other agencies and engaging groups of small firms in services more akin to collaborative research than traditional technology transfer.

The North East universities are net importers of students and the graduate retention rate in the North East is close to the national average. In a region with lower than average skill levels, retention of graduates is important to help build the supply of highly skilled labour and capacity for entrepreneurship and innovation.

### **2.6.3 Research and Development Expenditure**

Investment in R&D is an important driver of innovation, enabling businesses to enter new markets or to improve their productivity. R&D investment can also drive business creation, with innovation presenting opportunities to develop spin-out companies and for knowledge transfer.

The higher education sector is strong in the North East and HEI R&D contributes to 0.5% of the North East's GVA, higher than the average for the UK as a whole. However, R&D contributions from other sectors in the North East are relatively weak and between 1998 and 2003, R&D in the North East as a proportion of GVA was about half the England average.

The North East has the second lowest proportion of business R&D as a percentage of total workplace GVA out of all the English regions. Although public expenditure on R&D is above average, this is concentrated in HEIs and related institutions. Unlike other regions, the North East has no Government research institutions, and as highlighted in section 2.2 DTI Competitiveness Indicators (2007) show that in 2004 total R&D expenditure (as a % of GVA) stood at 0.9%. This is the lowest figure of all the English regions.

Therefore whilst the North East has strong HEI R&D expenditure - and capacity in science and technology related institutions has increased substantially since 1990 through the Centres of Excellence investment programme - the North East remains a poor performing region in terms of R&D in a country that is well behind other advanced economies in terms of R&D expenditure. Investment in R&D in the UK is only around half the 3% Lisbon target.

In terms of regional participation in FP5 and FP6 Programmes recent Office for Science and Technology (OST) figures from 2006 show that the North East performed poorly relative to other English regions and Devolved Administrations. For example, in FP5 as a % of total UK participations the North East took only 2.65% compared to 21.67% in London and 18.65% in the South East. The North East was the worst performing English region with only Northern Ireland (1.61%) lower at a UK level.

In terms of % of total funding taken by the region from FP5, again the North East was the lowest of the English regions (2.66%) with only Wales (2.39%) and Northern Ireland (1.51%) lower at UK level.

Under FP6 the North East remained the lowest English region in terms of both % of total UK participations (3.23%) and % take of total UK funding (3.10%). This is in the context of neighbouring Northern English regions i.e. North West having 7.10% of total UK participations and 5.96% of total UK funding and Yorkshire Forward having 5.86% of UK participations and 5.32% of UK funding.

The highest performing UK regions again being London taking 23.02% of total UK participations and 23.17% of total UK funding and the South East, taking 17.63% and 22.94% respectively. At UK level, only Wales and Northern Ireland performed worse than the North East in relation to UK as a whole.

Employment in the Research and Development sector in the North East is around half the English average, but the gap is decreasing over time with an increase in the number of jobs in this sector between 1998 and 2004 of over 60% more than the English average rate of growth.

## **2.6.4 Innovation in North East Businesses**

While there is a low level of collaboration between universities in the North East and local firms in fundamental research, the proportions of businesses investing in innovatory activity is in line with the national averages and propensity among businesses to access advice and support is above average.

Some 54% of enterprises in the North East invested in some form of innovation activity between 2002 and 2004, the same as the England average. However, these data do not provide detail of the scale of innovation activity or investment. In general, fewer businesses in the North East report barriers to innovation, although a slightly higher proportion report cost factors as a significant barrier. Data suggest that there is strong potential for the development of innovation in the North East, with over half North East businesses already involved in innovation activity.

## **2.7 Investment**

### **2.7.1 General**

Investment in physical, human and intellectual capital provides the basis for business growth and increased productivity. Investment by the private sector, both within the indigenous business base and through the attraction of mobile projects contributes to productivity and competitiveness as does public investment, notably in the fields of research and human resource development.

The public sector has historically played an important role in physical infrastructure and investment in location-specific regeneration initiatives. However, the private sector is increasingly involved in delivering public goods through joint ventures. Sustained economic growth since the mid-1990s has given the private sector confidence to take on a larger and more innovative role in area regeneration.

## **2.7.2 Business Investment**

Between 1998-2003, average investment by UK owned companies in the North East represented 4.2% of total investment by UK owned companies in England, lower than the North East's share of population. This low investment is attributed in part to market failures in the provision of business finance to which the financial engineering initiatives supported under the 2000-06 Objective 2 Programme has been a response.

In the same period, low domestic investment levels have been offset by higher than average investment by foreign-owned companies, accounting for around a third of total investment. The manufacturing sector accounts for a significant proportion of North East FDI, with foreign investment accounting for 54% of manufacturing investment. However, the scale of the investment has fallen since 2001 as existing investors have redirected investment to other countries, particularly in Central and Eastern Europe. There has been an increase recently, however, in FDI in technology intensive fields.

While service sectors account for the majority of FDI in the UK, services only account for a minority of FDI in the North East. However, the region experienced growth in total FDI between 1998 and 2004, with FDI in services growing in importance. Nevertheless, the scale of FDI in manufacturing in the North East remains considerably higher than the average for England, leaving the North East vulnerable to further redirection of manufacturing investment to low cost locations.

## **2.7.3 Regeneration Investment**

Over two decades, regeneration investment in the region has been largely focused in and around the cities Newcastle and Sunderland, and to a lesser extent Middlesbrough in Tees Valley. Future investment will remain focused on a small number of key initiatives, based on the two City Regions and the rural service centres. A key objective is to encourage greater participation by the private sector, especially in the remediation/ infrastructure and development phases of the regeneration process.

Substantial investment will continue in the region's two URCs, Tees Valley Regeneration and Sunderland ARC. Regeneration efforts in Tyne and Wear will focus on central Gateshead and Baltic Business Park, Newcastle's Discovery Cultural Quarter, the Great North Museum, and sites in the A19 and the Tyne Corridor. In Tees Valley, regeneration priorities will continue to focus on opportunities in Middlesbrough and Stockton, redevelopment of the towns in the Coastal Arc and the Darlington Gateway project.

In Durham the focus will be largely on Durham City, Net Park, and Beamish Museum. In Northumberland, regeneration activities will concentrate on the completion of the Berwick Master Plan and development of new workspace, Blyth town centre, further development of the Story Centre and other projects along Hadrian's Wall. In addition, the Rural and Environment Programme is likely to invest further to take forward some aspects of the Market Towns work.

Housing renewal will play a key role in the economic growth of the North East, helping to create sustainable communities that are integrated with areas of economic activity. A range of developments will meet the needs of existing residents and help attract economically active people from outside of the region. A range of public sector organisations are in the process of developing a programme to restructure housing in the coalfield communities and provide affordable housing in rural areas. In the urban areas, housing market issues are being addressed through the Bridging NewcastleGateshead Pathfinder and Tees Valley Living Housing Market renewal programmes.

Annual average expenditure from One North East's allocated budget for regeneration initiatives across the region is anticipated to be around £80 million, which will be focused largely on a few key investments in the city regions plus the rural service centres. Further public sector investment in housing, transport, arts and culture, and employment locations (excluding investment from local authorities) is forecast at around £216 million per annum over the 2006-11 period. This is anticipated to generate £600 million annually from the private sector for the range of regeneration activities.

## **2.8 Skills**

### **2.8.1 General**

A well-qualified workforce is an important component of a productive and competitive economy, while there is a strong correlation between low skills and worklessness. A high-skilled workforce can assist the generation of new ideas and adaptation to changing economic conditions, while investment in HRD can help reduce income disparities and levels of poverty. Skills are also complementary to other factors that can improve productivity, such as investment, innovation and enterprise. Without an adequately skilled workforce, firms will be unable to take full advantage of new technologies and production techniques.

### **2.8.2 Skill Levels**

Though improving in recent years, skills levels in the North East remain relatively low by national standards, reflecting the industrial structure of the North East economy (eg high proportion of low value adding jobs) and demand for skills. Accordingly, the supply of highly skilled labour for high value adding sectors is constrained.

The North East has a higher proportion of economically active people with lower level qualifications (NVQ Level 2 or lower) and a lower proportion of economically active people with higher level qualifications (NVQ Level 3 or higher) in comparison to the UK. Some 18% of the working age population in the North East have no qualifications, higher than the 15% average for the UK as a whole, and 21% have a qualification at NVQ Level 4, lower than the 25% average for the UK. An increase of some 60,000 in the number of economically active people with NVQ4 qualifications would be needed to bring the North East up to the England average. Not only are qualification levels in the North East lower than the UK averages, the UK itself is ranked low on workforce skills in comparison to other developed countries.

One way of addressing low workforce skills is through job related training. The proportion of North East employees reporting that they received job related training in the last week is close to the England average. The level of job related training would have to rise above the England average to close the North East's workforce skills gap.

### **2.8.3 Occupational Sectors**

Reflecting the skewing of the North East economy towards lower value added activities, the North East has a lower proportion of residents in employment in high-skilled occupations than the England average. While there has been a decrease in manual process, plant and machine operatives and elementary jobs in the North East, and an increase in more service orientated jobs such as personal service occupations, there has also been an increase in highly skilled managers and senior officials jobs over time.

### **2.8.3 Vacancies**

The North East has a slightly higher proportion of total vacancies, hard-to-fill vacancies and skill shortage vacancies than England, but there are important sub-regional variations:

Tyne and Wear and Tees Valley have, respectively, the 2nd and 9th highest proportion of establishments with vacancies among the English sub-regions.

County Durham has the lowest proportion of establishments with vacancies in the North East, but a higher proportion of establishments with hard-to-fill and skills shortage vacancies.

While one in 40 jobs in the North East remains unfilled, vacancies are concentrated in particular sectors. For example, one in 20 jobs in computing, hotel and catering sectors remain unfilled.

#### **2.8.4 Migrant Labour**

Migrants are increasingly being recognised as a potential source of skilled labour. The overall inflow of migrants to the North East is higher than the overall out-flow of migrants.

In June 2006 it was estimated that 600,000 immigrants (registered workers, self-employed and dependents) had come to the UK from the 8 accession countries since May 2004. The North East has experienced a significant inflow. However, the region has also experienced outflows of skilled labour, with one third of out migrant Household Reference Persons in occupational group 1 (higher managerial and professional occupations), compared to less than a quarter for London. The North East has the second lowest proportion of in-migrants in occupational group 1 (19.2%) of the English regions.

### **2.9 Environment**

#### **2.9.1 General**

A high quality environment in the broad sense contributes to regional competitiveness by attracting investment, skilled people and visitors as well as being an essential component of sustainable regional development. The natural environment provides a range of goods and services that contribute to economic activity, including the provision of renewable and non-renewable resources and infrastructure for public recreation and enjoyment. At the same time, regional economic objectives are underpinned by the need to ensure that the quality of environmental assets is maintained, encompassing the amenity value of both the natural and built environment.

#### **2.9.2 Natural Amenities**

The North East has good natural amenities including national parks and areas of outstanding natural beauty and coastline. The North East is endowed with World Heritage sites in Durham cathedral and castle and Hadrian's Wall. It has distinctive cityscapes. There has been considerable change in external perceptions of the Newcastle city region's cultural vitality as a result of major investment in new visitor infrastructures, active cultural events and general image promotion.

In the English context, the North East has a good endowment of high amenity landscape, including an above average number of designated sites. These, together with an impressive built heritage have potential for sustainable use for economic and leisure purposes.

#### **2.9.3 Cultural Environment**

Outside London, the North East receives the highest level of central government and lottery funding on cultural activities for any English region at 6% of the English total. Sustained investment in cultural facilities and activities has contributed to improving external perceptions of the North East and the Newcastle City region in particular.

There was a 37% increase in the number of visitors to the North East between 2000 and 2004. 8.7 million overnight and 74 million day visitors contributed £1.8 billion to the North East economy in 2004 and supported 30,000 FTE jobs and 7,700 jobs indirectly.

#### **2.9.4 Quality of Life**

Survey results suggest that two thirds of North East residents consider that the North East offers a good quality of life, although young people share this view to a lesser extent. The North East is consistently ranked among the second highest rated regions on the quality of life index and rates well on some quality of life indicators, including cost of living and population density, but scores less well on education, housing and health.

#### **2.9.5 Transport**

The North East has the lowest proportion of people travelling to work by private vehicle or mini-bus out of all the English regions excluding London, and the highest proportion travelling to work by bus and light rail service. However, the use of private transport for travel to work in the North East has increased over the last decade at a rate of growth slightly above the England average, although congestion remains modest.

#### **2.9.6 Climate Change, Energy and Resource Use**

As industry structure has changed and environmental standards have risen, there has been a corresponding improvement in air and water quality. The focus is, to a greater extent, now on wider issues associated with patterns of energy and resource use across all sources. This is particularly the case in relation to climate change, as the North East has the highest per capita emissions of CO<sub>2</sub> from industry of any English region.

Energy intensity and inefficiency are costly to the North East both in economic and environmental terms. Improving the energy efficiency of businesses in the North East will help to increase their competitiveness by reducing their production, processing and operating costs.

The public sector response to these issues is also important, as it involves increases to business costs around energy use, waste disposal, and water and sewerage charges. These changes are a result of increased costs of meeting legislative standards, and of ecological taxation. It is likely that costs will continue to rise from both sources, and that this will increase the benefits to business of undertaking resource efficiency work.

#### **2.9.7 Environmental Industries**

The North East is advanced in the development and exploitation of renewable energy. The North East produces more energy from renewable sources than any other region in England, apart from the East of England. The North East's renewable generating capacity is estimated to be about 75% above the average for England as a whole, and provides plenty of scope for future development opportunities.

The North East is also home to good industry networks and economic strengths for environmental industries (recycling and disposal of waste) with HQs for activities in this industry in the UK.

#### **2.10 Equality and Diversity**

##### **2.10.1 General**

Progress towards sustainable development requires the North East to harness the potential of its entire pool of talent. Demographic trends such as age and migration mean that

employers need to respond to the realities and the opportunities of a changing labour market. Although the equal treatment of under-represented groups in England is supported by a strong legislative framework, practical action is needed to overcome obstacles to full and fair participation in the region's economy.

### **2.10.2 Gender**

There is a very high rate of participation in the labour market by women, although there remains significant labour market segregation by industry, by full-time and part-time employment, and by occupational grade. Women account for a very significant proportion of new business starts, but research shows that they are less likely to make use of formal business finance or to access business support services.

### **2.10.3 Age**

The employment rate among the over-50s in the North East is markedly lower than for other age groups. While this to some extent reflects the process of industrial restructuring and the availability of early retirement packages in recent years, it is a matter for concern in the context of extended life-expectancy and low levels of pension provision.

### **2.10.4 Ethnic Minorities**

Compared with other regions of England, the North East has a markedly lower ethnic minority population and, in particular, a less numerous than average black population. The scale and diversity of the population is changing rapidly, however, with the recent influx of migrants from the New Member States of the European Union.

### **2.10.5 Disabled People**

Approximately a fifth of the working-age population is classified as disabled with a slightly smaller proportion identified as having a work-limiting disability. Around a quarter of economically active people with disabilities are in employment, partly reflecting research that has shown a very high predisposition towards self-employment and enterprise among disabled groups.

## **2.11 Spatial Development**

### **2.11.1 Spatial Character**

As discussed above, the North East combines highly urbanised areas, peri-urban areas and some of the most sparsely populated rural areas in England. Two of the four administrative sub-regions form the core of two City Regions identified in the Regional Spatial Strategy's definition of the two city regions:

**Tyne and Wear City Region:** the five unitary authorities of Newcastle, Gateshead, North and South Tyneside and Sunderland, plus the districts of Castle Morpeth, Tynedale, Wansbeck, Blyth Valley, Chester-le-street, Easington, Derwentside and Durham City.

**Tees Valley City Region:** the five unitary authority areas of Stockton, Middlesbrough, Redcar and Cleveland, Darlington and Hartlepool, together with the district of Sedgefield and the rural service centres of Barnard Castle, and Northallerton and Richmond in North Yorkshire.

Northumberland, with the exception of Blyth Valley, Castle Morpeth and Wansbeck) plus Teesdale and Wear Valley in the west of County Durham are deeply rural, with significant urbanisations limited to market towns and rural service centres.

Administrative and sub-regional boundaries are shown on Map 1 earlier in this section.

### **2.11.2 Sub-regional Disparities**

Examination of key statistics for the sub-regions reveals some marked differences, but perhaps a surprising amount of similarity given the range of spatial character outlined above. Table 2.1 shows the disparities in selected variables across the four sub-regions.

In terms of population, it becomes apparent that over the long term, the North East and its urban areas in particular have been losing population. Perhaps surprising is the fact that the 2004 figures suggest that this trend has been continuing in spite of improved economic conditions. While some recent loss of population from urban areas has reflected the increasingly residential character of the peri-urban areas, in 2004 the region as a whole was still subject to net outwards migration.

Recent labour market statistics for the four sub-regions are strikingly similar in terms of the rates of employment, unemployment and inactivity. However the employment rate in 2004-05 in Tees Valley had improved significantly from 2001-02, whereas in County Durham there had been a slight fall against the trend in the rest of the region.

With the exception of Northumberland which has a relatively high density of businesses, the other sub-regions are fairly similar and all well below the UK average. However the rate of business formation is notably lower in Tees Valley than in the other sub-regions and this characteristic is even more stark at local authority level.

While the recent position in the sub-regional economies is remarkably similar, the effects of past economic weakness are much more pronounced. Tees Valley and Tyne and Wear retain concentrations of deprivation that are intense by national standards. The same is true of the former coalfield areas of County Durham and South East Northumberland. However, it needs to be borne in mind that the relative absence of social segregation in rural areas tends to mask the poverty that can exist there also.

Between 1998 and 2003 GVA per capita increased by a quarter in the North East. While the more rural sub-regions performed close to this average, the uplift in Tyne and Wear was well ahead of the average whereas that in Tees Valley was well behind. GVA per capita in Tees Valley in 2003 was within 4% of the regional average nevertheless and well ahead of the more rural sub-regions. Nevertheless, recent trends visible in the data suggest that the economy in the Tees Valley City Region is starting to follow the growth pattern in Tyne and Wear.



<b>SUMMARY OF SUB-REGIONAL DISPARITIES</b>					
<b>Issue/Sub-region</b>	<b>County Durham</b>	<b>Northumberland</b>	<b>Tees Valley (5 unitary authorities)</b>	<b>Tyne and Wear (5 unitary authorities)</b>	<b>North East</b>
Total population change 1981-2004 (%) <sup>1</sup>	-2.9	3.9	median - 5.1	-6.1	-3.5
Migration (net migration projection for 2004 in thousands of people; based on 2003 figures) <sup>2</sup>	0.1	0.6	-1.7	-1.7	-2.8
Employment rate (working age population, 2004/2005) <sup>3</sup>	69.4	71.9	71.1	69.5	70.2
Percentage change in employment rate (working age population, 2001/2002 to 2004/2005) <sup>4</sup>	1.2	-1.6	7.6	1.8	2.6
Unemployment (rate of working age population, 2004-2005) <sup>5</sup>	5.8	6.1	6.6	6.0	6.1
Economic inactivity (rate of working age population, 2004-2005) <sup>6</sup>	26.3	23.4	25.9	26.1	25.3
Business density (business units per 10,000 population; 2004) <sup>7</sup>	256	309	254	266	266
Business start-ups (VAT registered businesses per 10,000 population; 2004) <sup>8</sup>	18	21	14	17	17
Deprivation (percentage of sub-regional LSOAs in the most deprived 10% England LSOAs, 2004) <sup>9</sup>	16.9	6.5	27.5	23.9	21.4
Gross Value Added per capita (£; 2003) <sup>10</sup>	10,787	10,915	12,279	14,582	12,805
Percentage change in Gross Value Added per capita (1998 to 2003) <sup>11</sup>	21.6	24.4	14.6	32.7	25.0
<p><sup>1</sup> Regional Trends 39 (ONS, 2006)  <sup>2</sup> 2003-based Sub-national Population Projections (ONS, 2005)  <sup>3</sup> Labour Force Survey – Quarterly: four quarter averages (Nomis, 2007)  <sup>4</sup> Labour Force Survey – Quarterly: four quarter averages (Nomis, 2007)  <sup>5</sup> Labour Force Survey – Quarterly: four quarter averages (Nomis, 2006)  <sup>6</sup> Labour Force Survey – Quarterly: four quarter averages (Nomis, 2006)  <sup>7</sup> Annual Business Inquiry – Workplace Analysis (Nomis, 2006); and 2004 Midyear Population Estimates (Nomis, 2006)  <sup>8</sup> ONS – VAT Registrations/Deregistrations by Industry (Nomis, 2006); and 2004 Midyear Population Estimates (Nomis, 2006)  <sup>9</sup> Super Output Area Level Index of Multiple Deprivation (DCLG, 2004)  <sup>10</sup> Headline gross value added by NUTS3 area at current basic prices 1995 to 2003 (ONS, 2006)  <sup>11</sup> Headline gross value added by NUTS3 area at current basic prices 1995 to 2003 (ONS, 2006); 1998 &amp; 2003 Midyear Population Estimates (Nomis, 2006)</p>					

### **2.11.3 Urban and Rural Areas**

#### **The Relative Role of Urban and Rural Areas**

The relative role of urban and rural areas in the economy of the North East can be seen in the distribution of population and jobs. Some 71.6% of the population of the North East lives in urban areas, with just 28.4% living in rural areas. An even greater proportion of jobs (88.4% excluding agriculture class 0100) in the North East are in urban areas at, with just 11.6% of jobs in rural areas. Rural-urban commuting has strengthened over the past decade as rural sectors have contracted and as the region's rural area has increasingly become a residential area.

#### **Urban Areas**

Within their wider urban setting Newcastle and Middlesbrough, each at the heart of a conurbation, play a distinctive and important role.

Economies of agglomeration and scale favour the concentration of more specialised and knowledge intensive activities. The shift in higher value-added activities from manufacturing towards knowledge-based industries favours greater concentration in the urban core where a mobile labour force can be brought together efficiently. While there is scope for encouraging wider dispersal of knowledge intensive activity, the economics are still likely to result in the core of the city regions being the locus of greatest opportunity and most development.

Although the North East has a high proportion of employment in growing sectors, employment in such sectors is concentrated in Tyne and Wear where 87.7% of employment is in growing sectors. Employment in growing sectors is significantly lower in Tees Valley and County Durham in contrast, at 71.0% and 74.5% respectively.

Sub-regional and lower level socio-economic analyses (ABI, LFS, IMD) reveal a spatial coincidence of weak economic activity, weak educational and skills attainment, low levels of participation and enterprise. As economic conditions have improved in the North East region over the past 5 years, these disparities have become more pronounced with urban areas such as South East Northumberland, parts of Sunderland, the County Durham coalfield and parts of Tees Valley enjoying less of the benefits of economic growth.

The former steel, shipbuilding and mining areas of Easington, Middlesbrough, Hartlepool, Redcar and Cleveland and Stockton-on-Tees contain many of the most deprived areas in the North East. Newcastle-upon-Tyne, South Tyneside, Sunderland and Gateshead also contain high concentrations of deprivation, notwithstanding the positive evolution towards a functional city region.

## Rural Areas

Rural areas of the North East are experiencing social and economic restructuring, much as the urban areas have experienced structural change. This is likely to be exacerbated after 2013 when there is expected to be further reform of agricultural support. The impact of these changes is particularly severe among those who lack mobility and flexible skills. The population of the more remote areas in the North East is generally in decline and the rate of decline has exceeded the average rate of decline for the North East region as a whole. There has been heavy out-migration of young people from rural areas and an ageing of population, although the number of children is holding up quite well. As a result of these trends, the sustainability of communities is being pressured, demand for services is falling and businesses will potentially find it more difficult to source local labour.

The rural areas of the North East have a greater proportion of business units in the smaller employment sizebands than the region as a whole. At the same time, the industrial make-up of businesses the rural areas is significantly different from that in urban areas of the North East. There are larger proportions of businesses that are not eligible or are low priority for public support. These differences in the business base become more stark, the more remote the rural area.

Reflecting the more constrained range of opportunities in rural areas, tourism, based upon the natural and historic environmental assets of the region, is of relatively greater importance.

Labour supply issues in rural areas are significantly different from urban areas that are subject to concentrated unemployment. The key issues for socio-economic development in rural areas of the North East are:

- price inflation in the housing market resulting from structural adjustment to who lives and works in rural areas, but also resulting from the purchase of second homes in the coastal fringe in particular.
- exacerbation of the general trend towards an ageing population from patterns of in and out-migration.
- the loss of local services from villages, although some evidence suggests that there has been consolidation and strengthening of market towns.
- access to transport affecting the elderly and young people in particular and linking to problems in accessing training and labour market opportunities.

## **3 DERIVATION OF THE PROGRAMME STRATEGY**

### **3.1 General**

The Programme Strategy has been derived from a synthesis of:

- The strategic direction provided by the European, national and regional policy contexts
- Conclusions drawn from the Programme's underpinning SWOT analysis
- Practical considerations, including absorption potential and scale of ERDF resources
- Comments received from the ex ante evaluator and the regional partnership.

The strategy has been developed by a drafting team with input from a Steering Group of partners drawn from key regional and sub-regional organisations. Further Partnership input has been facilitated through the running of consultation events and a formal consultation on the draft Programme Document and Strategic Environmental Assessment.

### **3.2 Strategic and Policy Contexts**

#### **3.2.1 Strategic Direction: EU and UK**

The key policy context for the new Programme is summarised under:

- the revised Lisbon agenda.
- the Community Strategic Guidelines.
- the UK National Strategic Reference Framework.
- the UK Lisbon Reform Programme.

The revised Lisbon Agenda and its focus upon growth, competitiveness and jobs provides the overarching strategic context for the development of the Regional Economic Strategy (RES) and by extension the NE Competitiveness OP. In terms of the Community Strategic Guidelines, the key context is drawn from Guidelines:

- 1.1. Making Europe and its regions more attractive places in which to live and work;
- 1.2 Improving knowledge and innovation for growth.

The policy trajectory embodied in these Guidelines can be clearly tracked through the OP Priorities (summarised in section 1 and presented in detail in section 4) as well as by reference to the North East RES. This is exemplified in the table overleaf.

CSG	OP Contribution
<b>Guideline 1.1 Making Europe and its regions more attractive places in which to live and work</b>	
1.1.2 Strengthen the synergies between environmental protection and growth	The OP emphasise the importance of the environment to the economic, social and sustainable development of the region. Within P1 and P2 of the OP the potential of new and renewable energies, energy efficiency and efficient resource management and their collective potential to contribute to innovation, productivity and growth is emphasised.
1.1.3 Address Europe's intensive use of traditional energy resources	The development of alternative sources of energy and increased exploitation of new and renewable energies is central to the OP. This is reflected in strategic initiatives such as the new and Renewable Energy Centre (Narec) in Northumberland and the associated Regional Energy Centres Innovation Connector (see section 4 for further detail)
<b>Guideline 1.2 Improving knowledge and innovation for growth.</b>	
1.2.1 Increase and better target investment in RTD	Priority 1 – Enhancing and Exploiting Innovation - in particular focuses upon the need to strengthen total R&D expenditure as well the region's capacity to commercialise and exploit innovation to contribute to economic growth and productivity in the North East.
1.2.2 Facilitate innovation and promote entrepreneurship	Priorities 1 and 2 seek to exploit innovation and associated commercialisation activity as well as to address the lack of an entrepreneurial culture in the region through the promotion of enterprise, business formation and growth
1.2.3 Promote the information society for all	Under Priority 1 one of the key aims of Innovation Connectors is to exploit and embed the opportunities associated with the new knowledge based economy within the social fabric of the region, raising awareness, take up and participation in the information society. Similarly, under Priority 2 a key objective is to build upon the availability of a widespread broadband infrastructure across the region to encourage take up amongst SMEs and the exploitation of competitive advantage associated with the information society.
1.2.4 Improve access to finance	The region has a strong track record in utilising ERDF support to add to and extend the availability of financial instruments to businesses across the region e.g. Nstar Venture Capital, North East Regional Investment Fund (NERIF), Proof of Concept Fund - all of which address significant market failure in the region in particular for SMEs. The OP will seek to continue and enhance financial instruments available to the region over the next programme period.

The UK's response to the Community Strategic Guidelines, the **National Strategic Reference Framework**, seeks to establish a broad strategy for the Competitiveness and Employment Objective in England. The Framework describes how, for ERDF, there will be four main priorities:

1. Promoting innovation and knowledge transfer
2. Stimulating enterprise and supporting successful businesses
3. Ensuring sustainable development, production and consumption
4. Building sustainable communities

### **3.2.2. The ERDF Regulation**

The ERDF regulation, published in July 2006, states that the European Regional Development Fund should primarily focus on the following three priorities:

- Innovation and the knowledge economy.
- Environment and risk prevention.
- Access to transport and telecommunication services of general economic interest.

There are additional two priorities, which, according to the ERDF regulation, may be taken up by programmes under the Regional Competitiveness and Employment Objective. These are:

- Interregional cooperation.
- Sustainable urban development.

The priority of Interregional cooperation has both its own focus on the interregional exchange of experience with Community funding, and acts as a 'horizontal' theme under priorities 1, 2, and 5 (although not 3) above.

### **3.2.3 Policy Summary**

Collectively, the policy documents advocate:

- exploitation of scientific and other innovation as a medium for increasing value-added, competitiveness and productivity in national economies.
- the cultivation of greater enterprise as a source of new jobs, greater competition and hence competitiveness.
- a focus on competitive places/sustainable communities with a particular emphasis on territorial distribution of economic activity in order to ensure that the economic potential is more fully utilised.
- better balancing of growth and environmental protection, both through the greater exploitation of environmental technologies and greater integration of environmental management within businesses and the economic development process.
- expansion of employment opportunities and the quality of employment (ie higher value-added and, hence, more sustainable jobs) matched with expanded labour market participation, particularly by equal opportunities target groups and those who have become distanced from the world of work, by increasing basic and intermediate skills.

A detailed illustration of the fit between the Programme strategy and the major European and UK policy drivers is provided in chapter 11.

### 3.2.4. Strategic Direction: the Regional Economic Strategy

The North East continues to under-perform relative to other English regions and UK average in terms of GVA, the region's GVA is 80% of the national average. As highlighted in the socio-economic analysis the primary factors in the region's underperformance are concerned with:

- Productivity – characterised by low levels of business and business formation rates, lack of RTD and weak exploitation of innovation and entrepreneurial culture;
- Participation – characterised by worklessness, low employment rate and low skills levels, which act as a constraint on growth.

The regional economic strategy and associated action plan has been developed following extensive consultation with regional partners and aims to bring together resources from public, private, European and other sources of funding in pursuit of productivity and employment targets.

The regional partnership therefore view the RES and its Action Plan as a key element in the delivery of the Lisbon Agenda at a regional level, in keeping with the UK Lisbon Reform Programme, and this has been a major driver for the focus of the OP.

As described above the RES for the North East identifies the need to raise productivity and participation in work as the two major challenges facing the region if it is to improve its prosperity and close the gap with other regions by 2016. The prime means of achieving these twin objectives are by:

- Raising the region's Gross Value Added per head from 80 to 90% of the national average by 2016;
- To get between 61,000 and 73,000 more people in the region into work;
- To create between 18,500 and 22,000 new businesses.

In order to achieve these high level objectives, investment will be focused around the following three priorities:

- Business.
- People.
- Place.

At the next level down from the three priorities a number of thematic areas of intervention have been identified. The main areas for action envisaged under the RES and RES AP, and agreed by partners, are as follows: :

Business	Enterprise
	Business Solutions
	Innovation, Industry, Science
People	Skills
	Economic Inclusion
	Leadership
Place	Quality of Place
	Promoting the region

It is at the level of thematic actions identified in the table above that Priority Axes for Structural Funds Programmes are normally specified. However, given the EU and national policy drivers outlined earlier, the conclusions of the SWOT analysis (below) and the ex ante evaluation and consultation processes (below), further filtering was required to create a programme structure that is both deliverable in terms of the practical considerations outlined below but consistent with the analytical and policy background at EU and national level.

### 3.3 The SWOT Analysis

The SWOT Analysis, summarised in Table 3.2 and reproduced in full in Annex III, distils the strategic issues identified in the socio-economic and environmental analyses presented in full in Annexes I and II and summarised above in Chapter 2 and assesses the implications for regional strategy. Conventionally, a SWOT analysis is used to help identify the strategic priorities and their weighting. However, given the strategic parameters described above, and in the context of an ERDF Programme where the limited resource will not allow a global approach to the region's economic development needs, it can only go part of the way and cannot, of itself, point to where the ERDF resource is best targeted.

Accordingly, a second stage process has been necessary and which has involved filtering the regional priorities, as proposed in the Regional Economic Strategy, against the specific policy context for Structural Funds Programmes and taking account of practical issues that also have a bearing on the shape of the Programme.

Table 3.2, overleaf, summarises the strategic issues confronting the North East identified from the socio-economic analysis. Further analysis of these strategic issues identifies the fundamental characteristics of the economy of the North East.

These are highlighted in Table 3.1 below and present the fundamental characteristics of the economy of the North East that the Regional Economic Strategy and by extension the ERDF OP exist to address.

All strategic activities identified are directly consistent with the analysis and recommendations presented in EU Community Strategic Guidelines and National Strategic Reference Framework.

Table 3.1 below, drawn from the socio-economic analysis, summarises the key strategic issues confronting the North East and highlights associated policy implications

<b>Table 3.1 NE England: strategic issues and policy implications</b>	
<b>Fundamental characteristics identified in Socio-economic analysis</b>	<b>Policy Implications</b>
Low business and employment density	Activities that address a lack of jobs and businesses across region
Low rates of business formation	Activities that address lack of entrepreneurial / enterprise culture
Lack of investment in RTD and weak commercialisation of HEI intellectual property and spin out businesses	Activities that strengthen region's capacity to exploit innovation and overall levels of RTD investment
Low productivity	Activities that address causes of low productivity – embodied in five drivers of productivity - enterprise, competition, innovation, skills, investment
Spatial concentration of weaknesses in skills and economic activity	Focused support for disadvantaged areas and groups within region
High energy intensity of industry and high carbon emissions	Activities that exploit both the sustainable development and economic potential of new and renewable energies and promote resource efficiency in business.
Small regional market	Activities that exploit opportunities and markets that are external to the region.



<b>TABLE 3.2: STRATEGIC ISSUES CONFRONTING THE NORTH EAST</b>	
<b>Strengths</b>	<b>Weaknesses</b>
<p>S1 – 78% of employment in growing sectors</p> <p>S2 – HEIs with distinctive technical competencies and capacity</p> <p>S3 – Effective network of technology support providers and network management</p> <p>S4 – Good supply of land and sites in advanced stage of preparation</p> <p>S5 – Reasonably wide availability of competitively priced premises</p> <p>S6 – Good quality natural environment, cultural environment and quality of life</p> <p>S7 – Good and improving external connectivity</p> <p>S8 – Reasonably good internal connectivity</p> <p>S9 - Endowment of renewable energy assets</p>	<p>W1 – Low business density</p> <p>W2 – Low employment density</p> <p>W3 – Relatively low rate of business formation</p> <p>W4 - 22% of employment in declining sectors</p> <p>W5 – Low productivity</p> <p>W6 – Low total investment</p> <p>W7 – Low investment in and intensity of Research and Development</p> <p>W8 – Weak business processes</p> <p>W9 – Weak performance in commercialising HEI intellectual property and generating sustainable spin-out businesses</p> <p>W10 – Small regional market</p> <p>W11 – Business financial services market failure</p> <p>W12 – Property market failure in some locations and market segments.</p> <p>W13 – Spatial concentration of weaknesses in human resources and economic activity.</p> <p>W14 – low intensity and limited availability of skills</p> <p>W15 - High Energy Intensity of Industry and high carbon emissions</p> <p>W16 - Weaknesses in Governance and Leadership</p>
<b>Opportunities</b>	<b>Threats</b>
<p>O1 – The potential for SMEs in the North East's relatively strong manufacturing sectors to take advantage of growing markets.</p> <p>O2 – The potential for firms in growing private sector service industries to benefit from growing markets</p> <p>O3 – The potential for SMEs to improve their exporting performance by exploiting existing and emerging international markets</p> <p>O4 – The potential to develop new SMEs to meet unmet latent demand for social and local services</p> <p>O5 – The potential for SMEs to exploit the emergence of new product and service market arising from technological change/innovation</p> <p>O6 – The potential for SMEs to exploit the emergence of new marketing channels arising from technological change/innovation</p> <p>O7 – The potential for SMEs to exploit the emergence of new product and service markets arising from environmental awareness, including climate change adaptation</p> <p>O8 - International Migration in Skills</p> <p>O9 - International Mobility of Capital</p>	<p>T1 – Monetary Instability</p> <p>T2 – Growth trend in the World Economy and implications for the region's exporters.</p> <p>T3 – International mobility of capital.</p> <p>T4 – Market liberalisation</p> <p>T5 – Rising Energy Prices and Security of Supply</p> <p>T6 – Climate change, related impacts and regulation.</p> <p>T7 - International Migration in Skills</p> <p>T8 - Potential Instability in Government Expenditure</p>

### 3.4 Focusing Down on Programme Priorities

Independent appraisal of the SWOT indicates the need for a regional development strategy focused primarily upon business creation and development, in order to address the fundamental economic underperformance of the region.

This could be achieved by actions that focus investment upon the following:

- Increase number of businesses.
- Grow/improve performance of existing business base.
- Develop new areas of business.

The attraction of mobile investment, the attraction of tourism and the development of exports, all identified as key issues facing the region through the SWOT Analysis, can be subsumed within the three business development activities identified above. Furthermore, these activities are very closely aligned with the first three of the fields of activity supported under the RES. (In practice, the RES enterprise priority includes generic support for existing businesses rather than being exclusively focused on new businesses).

Two additional sets of issues identified were concerned with overcoming the region's technical and physical deficits and relate to areas where action is necessary if progress under the business-related priorities is to be realised in full. The first of these relates to the skills of the existing and potential workforce. This is closely aligned with the two fields of action under the RES People priorities of: skills and economic inclusion and is more properly related to the ESF Competitiveness and Employment Programme.

The second of these is concerned with place-making and physical regeneration,. Its potential scope encompasses transport and connectivity, sites and premises for business, urban regeneration and public realm, all components that contribute to place competitiveness. This priority is closely aligned with activity supported under the RES Place priority: Quality of Place (including Physical Regeneration, Culture and Tourism, and Rural and Environment) and is addressed primarily by domestic funding streams.

Finally, independent appraisal identified two sets of issues that would logically be implemented horizontally across the programme.

Firstly, Environmental Management is concerned with ensuring that delivery against the five vertical priorities is done in an environmentally responsible fashion. On the one hand, it is concerned with protecting the region from environmental risks, and may involve pollution control or actions to mitigate the impact of climate change. On the other hand, it is concerned with ensuring that economic growth can take place with a less than proportional increase in the use of resources and generation of waste products.

This horizontal issue is consistent with the renewed Lisbon strategy and the Community Strategic Guidelines and, while it is compatible with some of the actions envisaged under the RES, could be extended to a more systematic consideration of environmental issues in implementation of this Programme.

The second horizontal issue deals with 'leadership' and responds to perceived weaknesses in governance identified within the SWOT analysis. This is concerned with the capacity of regional leaders to form effective partnerships and to make difficult choices, notably over the direction of strategy and/or the targeting of resources. This is substantially compatible with the Leadership field of activity under the RES and will be a prime consideration in developing governance structures (PMC and below) for the Operational Programme.

### **3.5 Practical Considerations in Strategic Focus**

#### **3.5.1. General**

In addition to policy considerations, the Shaping the Programme debate highlighted a range of practical issues with implications for the strategic focus for the Programme:

- the existence of agendas that could move forward with additional resources.
- the capacity of delivery organisations and beneficiaries to absorb additional resources.
- the relative availability of capital and revenue funding.
- the limited scale of the ERDF allocation.

#### **3.5.2. Absorption Potential**

Research for the RDA Corporate Plan (2007) and the Regional Funding Allocation (2006) on forward trends in resource requirements point to a reduction in spending of public economic development resources on the quality of place agenda (business infrastructure and public realm) in the medium term. In part, this reflects the greater role being played by the private sector rather than an expectation that overall investment will reduce. Over the same period, these sources envisage a considerable increase in spending on innovation, business and enterprise, while the share of resources for other agendas is expected to remain similar to present levels.

#### **3.5.3. Capital/Revenue Considerations**

Research also highlighted constraints in the flexibility of regional resources for economic development. The largest stream of development funding in the region, the RDA's Single Programme allocation is not fully flexible funding, but is 46% revenue funding and 54% capital funding.

Rationing of revenue funding is reported as having been a constraining factor in the development of past RES actions which would otherwise have seen more revenue activities supported under the People and Place agendas. This is a problem that will become exacerbated given trends towards the greater participation of the private sector in capital projects. The transfer of the former English Estates portfolio to a public-private venture, bringing in new investment, more intensive management and creating a funding stream which can be used for further investment represents a model which may have application in relation to other public sector holdings.

Both One NorthEast and the region's European Programmes Secretariat report difficulties in securing absorption of capital resources over recent years, with take-up of physical projects, including for larger scale strategic investments.

Capital, and physical build projects, in particular, are subject to planning uncertainties and resultant funding difficulties. They are subject to the vagaries of weather and unforeseen obstacles to their physical implementation. Review of the current Programme highlights risks associated with a significant capital component in EU-funded programmes that are subject to the n+2 auto-decommitment discipline that is retained for 2007-13. These issues favour a capital light balance in the ERDF Operational Programme, given that, in contrast to other funding streams, in the Programme development stage, ERDF is almost fully flexible.

### 3.5.4. Scale of ERDF Resources

Under the Regional Competitiveness and Employment Objective, some £35m per annum will be made available for relevant economic development agendas. This needs to be set against the scale of domestic resources, notably the £300m that comes through the Single Programme, £520m through the LSCs and £65m through Neighbourhood Renewal Fund.

The relative scale of ERDF resources has a number of implications. If distributed across more than a small number of Priorities:

- the concentration principle that governs the Structural Funds will not be met.
- it cannot credibly be said to lever additionality and impact.
- implementation costs will rise as the distinctive administrative and monitoring culture is extended to wider range of activity, even though the intensity of use of ERDF may be quite low.

### 3.6 Towards Conclusions on Programme Structure

Table 3.3 overleaf illustrates the potential consistency between the themes supported under the Regional Economic Strategy, its associated Action Plan and the European Regional Development Fund priorities for 2007-13.

Indicated in the range from hot to cool colours, it was clear that there is a very strong correlation between the ERDF Regulation, the Community and UK policy priorities and the RES priorities of:

- Innovation Industry and Science.
- Enterprise
- Business
- 

A significant, but lesser correlation between the Regulation, the policy drivers was also apparent in relation to:

- Quality of Place
- Economic inclusion.
- Promoting the Region

Table 3.3 : Inter-relationship between European, national and regional policy drivers

Filter/Programme	Innovation, Industry and Science	Business Solutions	Enterprise	Leadership	Skills	Economic Inclusion	Quality of Place	Promoting the region
<b>The ERDF Regulation</b>								
1. Innovation and the knowledge economy	X	x	x		x	X		
2. Environment and risk prevention	X	x					x	x
3. Access to transport & telecommunication services	X	x					x	
4. European territorial cooperation	X	x						
5. Sustainable urban development			x				x	x
<b>The Community Strategic Guidelines</b>								CSG Horizontal priority
1. Making Europe and its regions more attractive	X	x					x	x
2. Improving knowledge and innovation for growth	X	x	x			X		

3. More and better jobs		x			x	X		
<b>The NSRF</b>								
1. Promoting innovation and knowledge transfer	X	x			x			
2. Stimulating enterprise and supporting successful businesses		x	x				x	
3. Ensuring sustainable development, production and consumption	X	x				X	x	
4. Building sustainable communities			x			X	x	x
<b>National Reform Programme (the Lisbon Goals)<sup>2</sup></b>	X	x	x		x	X		
<b>Forecast trend in demand for public resources</b>	Large and increasing	Large and increasing	Small and increasing	Small and stable	Large and stable	Large and stable	Very large and reducing	Medium and Increasing slightly
<b>Filter/ Programme</b>	<b>Innovation, Industry and Science</b>	<b>Business Solutions</b>	<b>Enterprise</b>	<b>Leadership</b>	<b>Skills</b>	<b>Economic Inclusion</b>	<b>Quality of Place</b>	<b>Promoting the Region</b>

<sup>2</sup> Due to the high degree of overlap between the Regional Economic Strategy programmes and priorities of the National Reform Programme, it was not necessary to sub-divide this entry into specific goals.

The innovation, enterprise and business priorities, identified through the RES and RES AP process, were highlighted as areas where there is scope to absorb additional resources in the medium term and where there is a particular demand for additional revenue funding. Moreover, the combination of regional deficits in productivity and R&D activity highlighted in the evidence base coupled with the extent of policy push from the EU and UK policy context led to the conclusion that a Programme that did not include Innovation as a Priority Axis would lack credibility.

Access to transport did not emerge as a region-wide critical issue in the SWOT analysis and was not considered justified as a Priority Axis. Similarly, the state of development of telecommunications in the North East, did not emerge as a critical issue in the SWOT analysis, insofar as the region has almost universal broadband and mobile telephony access. Moreover, these issues were not highlighted as being of critical importance during the consultation process.

Where environment is concerned, the SWOT analysis identified weaknesses and exploitable strengths where environmental management and environmental industries are concerned respectively. Some environmental risk in the form of flooding was also identified, but could not be established as a major threat to regional competitiveness. However, while seen as very important, this agenda was perceived to lack the critical mass to justify a dedicated Priority Axis.

The Regulations allow for support for sustainable urban development as an optional ERDF priority, but only as a subsidiary focus of resources. Partners therefore considered the case for a specific Sustainable Urban Development Priority, to which could be devoted up to 20% of overall Programme resources. Nevertheless, partners concluded against such an approach. Arguments advanced against a dedicated sustainable urban development Programme priority included:

- the importance of securing a contribution to sustainable urban development from the Programme as a whole given that 70% of residents of the North East live in urban areas and 85% work in urban areas.
- the large scale and stability of domestic resources already dedicated to this theme; the RES Action Plan shows that some £600m in private sector and £300m in UK public expenditure per annum will be devoted to the Place agenda 2007/08.
- that it would be very difficult to ensure visibility of a maximum EU contribution of £7m per annum against the background of this scale of domestic effort.
- that it was likely to involve a significant demand for capital resources that could be better met from other funding streams.
- that it was likely to result in dispersal of resources as opposed to the concentration and limited number of projects favoured by the partners, and envisaged in the NSRF.
- that a sizeable allocation would be in tension with the obligation for a high level of focus on the Lisbon agenda (especially given the Lisbon balance in the 2000-06 Programme).
- that ERDF could best contribute to sustainable urban development and add value by improving the relevance and sensitivity of other RES themes to economic and social inclusion concerns.
- a concern that a dedicated urban focus might marginalise rural communities, many of which in the North East exhibit substantial economic deprivation.

Debate on alternative Programme structures took account of the foregoing issues and it was acknowledged that the focus of EU funds needed to be seen in the context of the wider resourcing of the Regional Economic Strategy. In recognising this partners also recognised that the concentration of ERDF against a limited number of priorities strengthened the impact and added value of the Operational Programme vis a vis wider economic development resources in the region. As a corollary to this, the partnership also recognised

that in focusing ERDF investment this did not diminish the importance of those themes that will continue to be supported through domestic funding streams only.

The conclusion was reached by Partners that the Programme should comprise three Priorities:

- Enhancing and Exploiting Innovation (within which there would be a strong emphasis on energy and environmental technology).
- Business Growth and Enterprise.
- Technical Assistance.

Furthermore, it was concluded that implementation of the operational Priorities would incorporate three cross-cutting themes:

- equality of opportunity.
- environmental sustainability.
- addressing spatial disparities in economic inclusion.

While the first two are mandatory, the third cross cutting theme reinforces the community focus of the Programme, covering both urban and rural areas of disadvantage.

#### **Addressing Spatial Disparities in Economic Inclusion, Including Sustainable Urban Development**

The spatial development concept within the North East's Competitiveness Programme contributes to both urban and rural regeneration by integrating awareness of regional spatial development objectives within Priorities that are primarily focused on the Lisbon Agenda.

The role of urban areas is already central to the RES. Some 85% of jobs are located in the two City Regions of Tyne and Wear and Tees Valley. The RES recognises that the greatest impact can be achieved through concentration of investment in the City Regions and that this will facilitate the transition to a more knowledge-based economy. Nevertheless, although 70% of North East residents live in urban areas, the pattern of disadvantage in the region only coincides in part with the City Regions. Most of the region's area is rural and is experiencing significant structural change; some of the North East's most disadvantaged citizens live in smaller settlements in former coalfield areas. A specific urban focus would not address these groups.

The Place Agenda within the Regional Economic Strategy, and which covers both urban and rural areas, is already heavily resourced and primarily delivered through vertical area regeneration actions. The Competitiveness Programme will complement this approach by embedding the Lisbon Agenda within area regeneration. In this way:

- under the Enhancing and Exploiting Innovation Priority, capital actions will form a focus for physical regeneration and employment opportunities in disadvantaged urban and rural areas, while revenue actions will engage communities with science and innovation and will address low aspirations.
- under the Business Growth and Enterprise Priority, ERDF will support the region's investment in creating the "enterprise surge", proposed under the RES Action Plan, by stimulating greater interest in starting businesses among young people and will address barriers to enterprise in disadvantaged communities both in urban and rural areas.



### **3.6 Programme Development: Summary of Consultation and ex ante Evaluation.**

The Operational Programme has been developed through a process of consultation and discussion with the regional partnership, the European Commission and independent ex ante evaluators. A brief summary of the process is provided here, and a full description is included in annex 4 to the Programme.

The consultation period for the draft Operational Programme ran from 9 January until 2 April. During that time formal consultation events were held in Newcastle and Middlesbrough and representatives from GO-NE and/or ONE also attended events in the four sub-regions. In addition meetings hosted by the private and community sectors were attended and a “thematic” workshop, bringing together representatives from the region’s technology/innovation and business support communities was held.

Publication of the draft OP was announced in a newsletter to stakeholders across the region. Comments on the draft Programme and its associated Strategic Environmental Assessment and Equalities Impact Assessment were invited at all consultation events and in all written communications.

In parallel with the regional stakeholder consultation, REGENERIS Consulting carried out an ex ante evaluation of the draft Programme. The key aspects of the ex ante evaluation are that it is an interactive process with the programme developers, it is an iterative process throughout the development period, and it adds value and leads to a stronger draft programme, providing a stronger basis for subsequent approval by partners. A summary of the evaluators’ key comments, and the drafting team’s response to them, is included in table 3.4 below.

Taking all factors into account, there has not been a need to fundamentally change the proposed structure of the Programme, but there has been a need to represent various views regarding the scope and content of the strategy and priorities and to address issues of spatial variation.

In addition, following testing through regional consultation, it has been decided to support participation in two EU initiatives through the Programme.

Firstly, under the inter-regional co-operation provisions of the ERDF Regulation, support will be provided for participation by the North East of England in initiatives such as ‘Regions for Economic Change’. This will enable the North East to access good practice and to participate through networks on areas of common interest. Participation in this initiative will help to overcome the region's reticence to be outward-looking which was identified in recent research.

Secondly, support of up to 1% of resources under both Priorities 1 and 2 will be devoted to experimental actions that will be identified in partnership. The objective is to test approaches that hold the prospect of improved performance over current ways of working through pilot projects of a small size and limited duration. Approved projects will contain an evaluation process that will consider its success and suitability for further application under the Programme.

<b>Table 3.4 Ex Ante Evaluation: Summary of key findings</b>	
<p>There a number of strengths in the current North East Operational programme:</p> <p>The summary socio-economic assessment is reasonably clear and there is overall a strong evidence base.</p> <p>The NEOP goes through a clear process which shows why certain priorities and activities have been selected. There is a well argued case for intervention for each priority in the strategy section.</p> <p>The strategy does have focus and clearly makes choices about what strands of the RES to support and what not to support.</p> <p>The NEOP manages to simultaneously link to and be embedded in the RES and also have a distinctive quality.</p> <p>There are clear and well articulated links showed to EU, national and regional strategies and policies.</p> <p>There is recognition of other funding sources and their constraints in the future and so the practicalities of programme design.</p> <p>The value added of the OP in supporting activity in Priority 1 is particularly well articulated.</p>	<p><i>The drafting team welcomed these observations, many of which reflected work carried out in response to the interim ex ante evaluation.</i></p>
<p>The structure of the summary SWOT analysis and the attempt to link it to the six possible directions for economic change and then the RES remains difficult to follow. We understand the logic that has been followed, but it needs to be articulated more clearly and indeed could be a source of confusion.</p>	<p><i>It was accepted that there is scope to simplify the presentation of this material in the draft OP: this was done, in line with the discussion between the evaluator and the drafting team in February 2007 and subsequently been refined following discussions with the European Commission..</i></p>
<p>There are some missing pieces in the evidence base that would provide more justification for elements of the subsequent strategy – especially in relation to the sectoral focus and spatial disparities in property market and enterprise performance</p>	<p><i>The sectoral focus of Priorities 1 and 2 has been more clearly articulated following negotiations with the Commission, and there is material in the full socio-economic analysis on spatial issues.</i></p>
<p>There is no justification given or rationale for the proposed split of resources between Priority 1 and 2 (53% and 43% respectively of Programme resources).</p>	<p><i>The split of resources is based on a forward look at investments envisaged in the RES Action Plan and is included in chapter 4 of the OP. Given the capital costs of the Innovation Connectors there is justification in weighting resources towards priority 1. this is, of course, indicative and, with agreement of the PMC and the Commission could be adjusted during the life of the Programme, taking the outcomes of the Programme's evaluation programme into account</i></p>
<p>There is a lack of clear overall targets and vision for the NEOP and how exactly these relate to and contribute towards the RES vision and targets.</p>	<p><i>This was addressed in redrafting chapter 4of the OP, including the development of a vision statement and a quantified global objective.</i></p>
<p>The NEOP provides clarity on what is to be supported and why, and what the NEOP's added value might be. There is a strong link to the region's Strategy for Success. However, there remain some areas where greater clarity and explanation is needed:</p> <p><b>Priority 1</b></p>	

<p><b>First</b>, we remain to be convinced about the purpose and value of the “supporting investments” related to the Innovator Connectors.</p> <p><b>Second</b>, the strong focus on capital intensive Innovation Connector projects as a means of boosting innovation in the region needs stronger justification (especially in light of earlier comments that the NEOP needs to be “capital light”).</p> <p><b>Third</b>, there is still some lack of clarity on where activities are sectorally focused or more general. There is a need for a clearer articulation of what the priority sectors are and why they are the focus of Priority 1.</p>	<p><i>The redrafted OP made it absolutely clear that the activities referred to will be subsidiary to investments in Innovation Connectors, and only supported where it is clear that, as a part of an integrated package of investment, they are critical to integration with local communities..</i></p> <p><i>By their nature the Innovation Connectors incorporate geographically targeted physical regeneration activity in support of innovation. There will not be a “strong focus” on capital support, but rather capital support will be provided where necessary (see chapter 4 for detail)</i></p> <p><i>The concentration of activity around the “3 pillars” provides sectoral focus, and the latest draft of the OP introduces a third Field of Action to provide more distinction</i></p>
<p><b>Priority 2.</b> The Priority seems to be advocating simply supporting more mainstream activity that we would have expected core RDA and other funding to aid. There is a lack of clarity on the precise added value ERDF will bring.</p> <p>There needs to be more clarity on spatial priorities here, given the variations in enterprise rates across the region. At present it lacks specificity and is too general</p>	<p><i>This issue has been addressed in the redrafting of the OP: see revised text in chapter 4, Priority 2.</i></p> <p><i>There are references to spatial variations throughout the Priority and the Priority now explicitly targets enterprise support at disadvantaged areas in the region.</i></p>
<p>In both priorities there is a need for some rationalisation of the indicators used and targets set. We believe the overall net additional GVA target at £1bn pa (or a 3% increase on current regional GVA) is very ambitious and may need to be reviewed</p>	<p><i>The indicators have been rationalised – and an explanation of the GVA target has been incorporated..</i></p>
<p>The treatment of cross-cutting themes (CCT) has barely moved on since the previous draft and our earlier comments have hardly been addressed. It remains weak. However, more detailed aspects could be addressed in a CCT Implementation Plan.</p>	<p><i>There is an expanded chapter on CCTs, and consideration will be given to the development of an implementation plan during the operational phase of the Programme.</i></p>
<p>The co-ordination chapter has also barely changed. Whilst we appreciate that the detailed mechanisms for ensuring co-ordination between ERDF and other structural funds have yet to be determined at a national level, the document could have moved on in its treatment of these issues (although demarcation arrangements between ERDF and EAFRD are outlined in the Implementing Provisions chapter).</p>	<p><i>This issue is being addressed in the context of national discussions about demarcation.</i></p>

## **4 STRATEGY FOR THE PROGRAMME**

### **4.1 High Level Vision for the Programme**

The North East Competitiveness OP will by 2015 have made the region a more cohesive, ambitious and attractive place in which to invest and work based on the creation of a modern, innovation focused economy that is well placed to exploit the economic and social opportunities associated, in particular, with renewable energies and technologies that contribute towards a healthy environment. It will strengthen the region's entrepreneurial culture and grow the region's business base resulting in an outward facing regional economy and society that is self reliant and confident of its ability to compete in the global market place.

## 4.2 Strategy for the North East of England Regional Competitiveness ERDF OP 2007-2013

### 4.2.1 Global Objective for ERDF Programme set against regional targets

Chapters 3 and 11 provide more detail on how the EU and national policy context that has shaped the programme and links the OP priorities back to EU policy drivers. This section seeks to clearly articulate the Strategy and Priorities of the OP itself.

The ERDF Programme for 2007-2013 provides an excellent opportunity for the North East of England to further progress its economic development, through priorities determined by the region itself and defined by a strong regional partnership drawn from all parts of the region.

In keeping with both Community Strategic Guidelines and NSRF requirements the vision for the programme seeks to embed the use of ERDF resources within the broader policy framework that exists within the North East in pursuit of sustainable regional economic development.

The Regional Economic Strategy (RES) represents the North East's response to the revised Lisbon Agenda and is seen by partners as the key mechanism through which to deliver against the region's growth and jobs objectives. The region needs to achieve a step change in economic performance if it is to raise its prosperity and achieve the targets set out within the RES. That is:

- To raise the region's GVA per head from 80% to 90% of the national average
- To get between 61,000 and 73,000 more people in the region into work
- To create between 18,500 and 22,000 new businesses

The emphasis placed upon growth, competitiveness and jobs embodied within the Lisbon Agenda has shaped the RES and will be at the heart of the new ERDF Operational programme. The programme will focus at least 83% of its resources against the Lisbon Agenda.

Through a targeted approach the partnership will concentrate ERDF funding to generate additional added value, complement the investment of domestic resources, and deliver a distinctive European contribution. We recognise that greatest additionality will arise by focusing ERDF resources where they best complement domestically-funded activities. We therefore want to use ERDF resources to advance two particular key strands of the Regional Economic Strategy

- Firstly, to promote 'opportunity' by advancing science, technology and innovation within the region's business base.
- Secondly, to address 'need' by developing the enterprise base of the region, in particular in the most disadvantaged parts of the region, and in response to the North East's low business rate support a more dynamic, growing business base across the region as a whole.

The contribution of the European resources to the region's overarching targets are set out below and constitute the **Global Objective** of the ERDF Programme – this is: :

By 2015, to increase GVA per capita in the North East towards 90% of the UK average (111% EU average) in a sustainable manner through actions leading to:

- increased business density as a result of the creation of 3,000 new businesses, of which 15% in disadvantaged areas.
- the creation / safeguarding of 28,500 gross jobs of which at least 10% in disadvantaged areas.

- an increase in R&D expenditure as a percentage of regional GVA of 0.2%.
- improved environmental management and energy efficiency in 2,850 assisted businesses.
- increased productivity among the region's businesses resulting in an increase in £1,1bn in regional GVA per annum.<sup>3</sup>

#### Baselines

<b>Global Objective Baselines</b>	
Number of Businesses, 2004	67,800
Business density (business units per 10,000 population, 2004)	266
Number of VAT Registrations, 2004	4,290
Number of Employees, 2004	1,005,700
North East GDP per capita index (2004)	
• compared with UK	79.6%
• compared with EU	97.2%
Business Enterprise R&D as % of Regional GVA, 2004	
• North East	0.4%
• UK	1.2%
North East GVA, 2004	£34.4bn

#### 4.2.2 Programme Priorities

As indicated in Chapters 3 and 11, the RES and by extension the ERDF OP have been informed by EU and national policy drivers. As such the priorities themselves flow directly from CSG Guidelines 1.1 (Making Europe and its regions more attractive places in which to invest and work) and 1.2 (Improving knowledge and Innovation for growth). They closely reflect the NSRF priorities of promoting innovation and knowledge transfer, sustainable development, production and consumption, building sustainable communities and stimulating enterprise and business. The Global Objective of the programme therefore will be pursued through a strategy comprising three Priorities weighted as follows:

- Priority One: Enhancing and Exploiting Innovation (53%).
- Priority Two: Business Growth and Enterprise (43%).
- Priority Three: Technical Assistance (4%).

The distribution of resources across the Priorities reflects the greater capital intensity of Priority 1 and has been developed in conjunction with partners as part of the process of costing the RES Action Plan. The rationale is drawn from analysis undertaken as part of the RES Action Planning process (which provides detail of expenditure from all sectors i.e. public, private, Universities, VCS etc) in addition to RDA Single Programme towards priorities agreed by regional partners in the regional economic strategy.

The rationale is further underpinned by analysis of One North East and partner project pipelines, which confirm the findings of previous evaluations and an evaluation of resources and needs produced as a discussion paper as part of the OP planning and development processes.

It is also influenced by a clear steer emanating from partners in responses to the formal OP Consultation, itself building on partners' practical and implementation experience..

The need for capital expenditure within Priority 1 associated with the development of the Innovation Connectors and further research undertaken by partners - to inform the OP

<sup>3</sup> By 2015, regional GVA is forecast to be increased by £1.1bn per annum over the value that would have prevailed in the absence of the Programme. By its end, the Programme is forecast to produce a sustainable uplift in regional GVA per annum, equivalent to 3% of the 2004 level.

development – that has identified a revenue constraint on growth / investment in innovation, enterprise and business support activities. As such outside of activity related to Innovation Connectors there is a strong revenue bias within the remaining Fields of Action under Priority 1 and across Priority 2 where lack of revenue funding has hampered activity in recent years. However, a limited capital element will be retained in P2 to fund small scale infrastructure projects linked to the Business Growth and Enterprise agenda. It is anticipated that this will represent some 10% of available resources under P2.

With regards to the focus of the priorities themselves, the RES AP process has considered the funding streams available to meet all regional economic development agendas and consequently, as a result of its concentration, ERDF will play a significant and visible role within the areas of the RES covered by Priorities 1 and 2.

This strategy will seek to address the key weaknesses in the economy of the North East as identified in the SWOT Analysis. Namely, the low number of businesses in the region (W1), the relative underperformance of the region in terms of GVA per capita (W5), the relatively low rate of employment (W2) and productivity and the low rate of business formation (W3).

Although recent years have seen positive developments in the North East in terms of the overall number of jobs, value-added per capita has shown little improvement (W5). While the region has been losing manufacturing jobs, many of the service sector jobs that have been created are lower value adding.

Accordingly, through Priority 1, the strategy will increase the region's value-added by investing in 'opportunity' to exploit the region's science and technology strengths to take advantage of growing markets. Priority 1 will also invest in integrated projects that, on one level, will strengthen capacity to apply science, technology and innovation in businesses. However, these "Innovation Connectors" will also make a significant contribution to embedding the Lisbon Agenda at community level and the promotion of the region's new and renewable energy strategy.

The Innovation Connector projects are geographically concentrated but spatially dispersed across the region and, in most cases, are located in or close to some of the North East's most disadvantaged areas. The projects will provide a quality business infrastructure and research facilities that will provide a focus for further regeneration investment. Partners will be expected to develop innovative and integrated packages of investment to ensure the successful realisation of the Innovation Connectors, including measures to ensure that they are environmentally attractive and accessible to local communities. Development of the Innovation Connectors will generate a broad range of direct and indirect employment opportunities and they will have a role in engaging communities with the science and innovation agenda and in raising aspirations among young people.

The primary focus of Priority 2 will be tackling 'need', addressing weaknesses 1, 2, and 3 identified in the SWOT analysis. That is both **generally**, by focusing upon the need to address the region's relative underperformance in productivity, business formation and survival rates, and **spatially**, by prioritising enterprise related investment in the most disadvantaged parts of the region.

Priority 2 investment therefore will contribute to an "enterprise surge", one of the transformational investments identified in the RES Action Plan. The targets for this initiative will not be achieved without achieving a cultural change in attitudes towards, and an exploitation of, the latent potential for enterprise in all sections of North East society.

Accordingly, Priority 2 will include support for animating enterprise among young people and whole communities, including in rural areas (W13). It will prioritise efforts to increase the penetration of enterprise in disadvantaged areas (W13), for example, by providing access to finance for prospective entrepreneurs who have limited assets and by supporting the

development of local enterprise. Achieving higher levels of enterprise and associated employment will contribute significantly to the sustainability of communities, in both urban and rural areas.

The strategy recognises that the North East's relatively small internal market represents a major constraint on the depth and diversity of activity that is likely to develop naturally (W10). Accordingly, Priority 2 will provide support for businesses with growth potential to boost productivity and competitiveness and to become more outward looking towards markets in other regions and abroad.

Table 1 overleaf provides a synopsis of the OP priorities, areas of activity and indicative examples of activity set against broader EU CSGs and NSRF policy context.



Relevant CSGs	NSRF Priorities	Priority	Fields of action	Examples of activity
<p>1.1.2 Strengthen the synergies between environmental protection and growth</p> <p>1.1.3 Address Europe's intensive use of traditional energy resources</p> <p>1.2.1 Increase and better target investment in RTD</p> <p>1.2.2 Facilitate innovation and promote entrepreneurship</p> <p>1.2.3 Promote the information society for all</p> <p>1.2.4 Improve access to finance</p>	<p>Promoting innovation and knowledge transfer</p> <p>Ensuring sustainable development, production and consumption</p>	<p><b>Priority 1: Enhancing and Exploiting Innovation</b></p> <p><i>The focus of this priority is to promote and embed 'opportunity' by advancing science, technology and innovation within the region's business base and broader communities.</i></p>	<p>1) Investment in Innovation Connectors.</p> <p>2) Support for innovation and technology-led sectors</p> <p>3i) Exploitation of Science base</p>	<p>i) Reclamation and preparation of sites and associated infrastructures, including management of environmental risks</p> <p>ii) Premises and capital works associated with exploitation of innovation, science and energy.</p> <p>iii) Community awareness and engagement actions related to science, energy, technology and innovation agenda and promotion of employment opportunities linked directly to Innovation Connector projects.</p> <p>i) Innovation focused, tailored support geared towards the needs of groups of or individual SMEs with high growth potential and their supply chains.</p> <p>ii) Network facilitation to enhance cooperation between SMEs in key sectors.</p> <p>iii) Revenue actions by Centres of Excellence and Innovation Connectors in delivering technology support to key sectors, including support with the development of new products and processes.</p> <p>iv) Financial and technology support for the development of new products and processes.</p> <p>i) Support for research into commercial feasibility of scientific and technical innovation.</p> <p>ii) Direct support to SMEs to build capacity linked to science and design base</p> <p>iii) Financial assistance with working capital and investment.</p>

CSGs	NSRF	Priority	Fields of action	Examples of ERDF activity
<p>1.2.2 Facilitate innovation and promote entrepreneurship</p> <p>1.2.3 Promote the information society for all</p> <p>1.2.4 Improve access to finance</p>	<p>Building sustainable communities</p> <p>Stimulating enterprise and supporting successful businesses</p>	<p><b>Priority 2 Business Growth and Enterprise</b></p> <p><i>In order to address the relative underperformance of the North East in terms of business formation and sustainability the focus of this priority will be to address 'need' by developing the enterprise base of the region, in particular in disadvantaged parts of the region, and to support a more dynamic, growing business base across the region as a whole.</i></p>	<p>1) Cultivating and sustaining enterprise (including social / community based enterprise) in disadvantaged areas.</p> <p>2) Enhancing the competitiveness and growth of existing SMEs (including social / community based enterprises)</p>	<p>i) Support for the development of an entrepreneurial culture in disadvantaged areas, in particular amongst young people, promoting enterprise as an alternative career path, including through the provision of packages of support, opportunities to research and test out ideas, coaching and mentoring provision.</p> <p>ii) Support to start-up business, including social enterprise, including pre-start-up guidance and advice, assistance with business planning, business systems and processes and assistance with exploitation of ICT applications including e-commerce.</p> <p>i) Specific initiatives to improve productivity, including support with environmental management actions such as energy efficiency and waste minimisation</p> <p>ii) Individualised advice, information and diagnostic services including account management for SMEs with identified growth potential. ERDF will extend range of business solutions available to regional SMEs.</p> <p>iii) Actions to promote sales growth, including through promoting supply chain development, actions to help SMEs take advantage of the liberalisation of public procurement, assistance with exporting and other internationalisation.</p> <p>iv) Financial assistance with working capital and investment, building on the region's experience with financial engineering in current programme.</p>

### **4.2.3 Value Added by Community Support**

It is anticipated that ERDF will add value to the RES through the bringing together of Lisbon related objectives and sustainable communities under Priority 1, and through its targeting of enterprise resources upon the most disadvantaged parts of the region under Priority 2.

In addition, added value will also result from the Programme's concentration upon a limited number of RES themes, through its integration of the cross cutting themes and through its support for specific EU initiatives related to innovative and transnational activity.

The visibility of EU support will also be ensured through rigorous implementation of an appropriate strategy for publicising the contribution of ERDF and its achievements.

The value added by ERDF support under the Operational Programme is explained further in section 4.7.

### **4.2.4 Horizontal Orientations Governing Implementation of the Strategy**

#### **Equality of Opportunity**

An increasing body of legislation, targeted at different groups, has been introduced in recent years. In addition to that covering gender, legislation covers accessibility issues in relation to disability, and targeting discrimination on the basis of race and age. In addition, there are advantages to employers in widening the field from which employees are drawn.

The key features in relation to gender in the North East are broadly common with the UK as a whole. While there is little difference between male and female levels of employment, there remains a persistent gap in average earnings. This reflects both vertical and horizontal segregation in the labour market – women, and other target groups, tend to be employed at lower levels, and in lower earning sectors, than men. Positive action projects may be necessary in some cases to address these issues, especially where less activity has taken place in the past.

#### **Environmental Sustainability**

This section effectively provides a synopsis of the information provided in Chapter 5, section 5.2 and highlights the key elements that will govern implementation in keeping with the regional partnership's commitment to Environmental Sustainability as a horizontal priority.

As such the intention is to highlight the most important environmental issues for the Programme as being those around the use of energy and resources in business; the North East has the highest per capita emissions of CO<sub>2</sub> of any English region, a reflection of the industry base. In the context of rising energy costs, actions to improve energy and resource use efficiency will have correspondingly greater economic benefit as well as contributing towards environmental aims. It is particularly important that environmental considerations are integrated into new and innovative technologies and start-up businesses, with the overall aim of reducing the environmental impacts of businesses in absolute terms, as well as relative to GVA.

Energy and resource issues are also important in the context of capital projects, in relation to building quality, and to its location. The re-use of brownfield land close to existing public transport infrastructure remains a priority, both to reduce the need for travel, and also to ensure that new opportunities are open to those without access to private cars. The use of standards such as the Buildings Research Establishment Environmental Assessment Method has been proven in the Objective 2 Programme for 2000-06 to be an effective way of delivering these aims in an integrated way.

## **Addressing Spatial Disparities in Economic Inclusion**

The socio-economic analysis highlights how economic progress in the North East has resulted in growing disparities between different parts of the region. The implementation of the Programme Priorities will address spatial disparities through a combination of:

- accompanying actions, such as community engagement measures to afford broad access to employment opportunities created as a result of investment under Priority 1 of the Programme.
- concentration of enterprise related interventions in priority 2 and specific actions to address associated spatial phenomena, such as the low level of new business starts in disadvantaged areas.
- a commissioning approach to underpin spatial objectives, including where this will help steer developments towards disadvantaged areas.
- providing an incentive for the dispersal of relevant development through, for example, the modulation of intervention rates to take account of spatial differences in market failure.

### **4.2.5 Consistency with the EU and UK Policy Context**

The previous chapter demonstrated how the Operational programme is compatible with, and derived from, the Regional Economic Strategy. In addition, the investments proposed under Priorities 1 and 2 are demonstrably compatible with, and will make a significant contribution to, other EU, UK and regional policy orientations, specifically:

- Revised Lisbon agenda
- Community Strategic Guidelines
- National Strategic Reference Framework
- The Northern Way.
- The Regional Spatial Strategy
- The Tyne and Wear and Tees Valley City region Business Cases

Further details are included in chapter 11.

## **4.3 The Programme Priorities**

This section describes, for each Priority:

- Specific objectives
- Rationale for Intervention
- Application of Lessons from Past Programmes
- The strategy for each Priority
- Integration of cross cutting themes
- Final beneficiaries
- Target beneficiaries
- Resources and weighting
- Performance Indicators and Targets

#### 4.4 Priority One: Enhancing and Exploiting Innovation

##### Specific Objectives

By 2015, to enhance the exploitation of science, technology and other innovation through actions leading to:

- 6,708 new and existing SMEs being assisted to improve their performance.
- an increase in R&D expenditure as a percentage of regional GVA of 0.2%.
- the creation / safeguarding of 12,016 gross jobs of which 5% in disadvantaged areas.
- the generation of £545.0m in net additional GVA per annum.

##### Rationale for Intervention

The socio-economic and SWOT analyses show that the North East region is characterised by low productivity, low GVA and low levels of R&D expenditure. For example, between 1998 and 2003, investment in R&D was only half that of the national average and only one third of the Lisbon target of 3% of EU GVA.

Regional Partners, through the RES, have concluded that the application of innovation, the commercialising of intellectual property and growth of technology-based sectors alongside the strengthening of R&D represent the main opportunities for raising productivity and building a new economy in the North East that is equipped to compete in the global market. This Priority will therefore focus investment upon efforts to lead structural economic change within the North East region as embodied by the Three Pillars of the Strategy for Success, namely:

- Process Industries
- Energy and the environment
- Healthcare and health sciences

Based on analysis of scientific strengths in Universities and industry these are considered as sectors where North East has the opportunity to achieve world class competitive advantage. Actions to address weakness in innovation have been part of the regional development mix for many years, but its relevance has been brought into stark relief with the contraction in manufacturing. These actions have contributed towards building a robust Higher Education sector, which has established research strengths in areas such as ageing, stem cells, molecular engineering, renewable energy, oil and gas, digital technology, electronics, bio-processing, nano-technology, design and software. However, these strengths could be more fully exploited.

Research (CURDS, 2006) has highlighted a weak level of collaboration between universities and local firms that is exacerbated by the small size of firms implementing innovation. While recent research (RTD North, 2006) points to high levels of latent demand among SMEs in relation to product improvement, new product development and marketing of technology-based products and services, businesses have cited barriers to innovation such as high cost, perceived economic risk, cost and availability of finance, and lack of qualified personnel.

Universities and colleges have been attempting to overcome some of the barriers to innovation by involving firms in the activities of other agencies and establishing collaborative centres within which groups of small firms can access services more akin to collaborative research than traditional technology transfer.

Since 2001, aspirations to develop internationally competitive clusters through interaction between the science base and businesses have been rationalised to concentrate on Three

Pillar s, i.e. the priority sectors identified above as having demonstrable potential as high value-added activities addressing growing markets:

These sectors have become aligned with the region's programme of investment in science and technology facilities and leadership to form an integral part of the Strategy for Success (S4S). S4S will drive exploitation of the investment that has taken place with ERDF support since the late 1990s in five Centres for Excellence in science and technology that are relevant to the priority sectors. There are indications that these developments are becoming visible in socio-economic data, notably recent growth in the numbers of people employed in R&D activities and an upswing in business expenditure on R&D.

As a result of experience over the past five years and broader evolution of technology transfer practice, the region has more recently been taking action to further strengthen the dissemination and application of intermediate technologies. This approach has been endorsed by recent research in the region carried out by the OECD and will be reflected in the development of a number of projects known as "Innovation Connectors". Due to economies of agglomeration, recent investment in science and technology centres and the associated regenerative benefits have substantially been confined to the core centres in the two City Regions. However, it is recognised that the spatial distribution of innovation related investments and their associated regenerative effects have an important role to play in tackling spatial disparities in economic and social inclusion across the region.

For example, NaREC, the region's centre for new and renewable energy at Blyth, is outwith the core City Regions but has brought significant physical renewal, employment creation and community engagement to an area that has hitherto proved difficult to regenerate. Reflecting the commitment in the RES to sustainable, inclusive, economic growth, a substantial proportion of future investment in science and technology centres, the Innovation Connectors, will form a focus of local regeneration across the region.

**What is an Innovation Connector?**

Innovation Connectors will enable Public / Private and University cooperation in pursuit of innovation and economic development in a way that serves the needs of their respective

communities of interest. They will be a key feature in successful knowledge based economic development strategies. The programme will support a number of different types of Innovation Connectors depending on where it is and the ambitions of local partners. What they all have in common is:

- A Partnership and/or Institute which involves the participation of **Public** (e.g. Local Authority/ Regional Development Agency / Voluntary and Community Sector) **Private** (e.g. Business /Centres Of Excellence/ Special Purpose Vehicle (SPV)) /and **University** partners.
- A centre for science, innovation and creative activities with strong economic and physical links to disadvantaged communities and localities within the region.
- A physical hub for the co-ordination of networks which, amongst other things connect entrepreneurs to resources and assistance, provide a supportive environment for participants, share knowledge between new and existing companies
- Structures to link together University research, technology based businesses, quality business infrastructure
- To have a plan to promote community awareness of and engagement in science, innovation, creative sectors and to create and exploit direct and indirect employment opportunities associated with IC development.

#### **ERDF**

The strategic focus of ERDF i.e. to link competitiveness, productivity and innovation to community priorities will help to establish and embed the Innovation Connector model by ensuring that the Community and broader socio-economic impact of innovation related investment is linked to the region's cohesion agenda. ERDF will contribute to the areas identified above and add value by widening innovation and productivity based investments (taking account of local factors and need). By deepening the geographical focus of intervention that is, by explicitly linking innovation related development to the community in which it is based ERDF will enable development to come forward more quickly than would otherwise have been the case. As part of the evaluation of investment in the Innovation Connector model, projects will be required to report on business, productivity and community engagement activities. Assessing the impact of Innovation Connectors and the visibility of ERDF interventions will be a key focus of the Programme Evaluation Strategy.

Examples as follows:

**Regional Energy Centres (RECs)**, centred upon the New and Renewable Energy Centre (Narec) in Blyth, Northumberland, RECs will be a network of research and innovation facilities throughout the region concerned with new and renewable energy. In addition to the hub based at Narec these will include the University of Newcastle applied research Centre for land based renewable energy, the Fuel Cell Application Centre in Tees Valley, Biomass and Biodiesel in Tees valley and new technology for oil and gas, including carbon capture, in Tees Valley, and Subsea and offshore Engineering. The Centres will take a key role in the development of new, more sustainable approaches to the use of energy businesses, public organisations and domestic users in the region (see case study page 57).

**Newcastle Science City (NSC)**, will develop substantial new capabilities and activities in respect of the development and commercialisation of science, particularly in the areas of ageing, stem cells and regenerative medicine, energy and molecular engineering. The core of science city will be located on a former brewery site in a disadvantaged part of Newcastle. NSC will develop innovative approaches to the community outreach and education of young people in science throughout the region.

## Applying the Lessons from Past Programmes

Development of the Programme has taken into account the lessons from evaluations of EU-funded regional development programmes across the UK as well as studies that are specific to the North East of England.

The main lessons that are relevant to the Enhancing and Exploiting Innovation Priority are as follows.

- Mid-term Evaluations of the 2000-06 Programmes across England have underlined that capital-intensive Priorities are subject to greater uncertainty and susceptible to pressures from the auto-decommitment discipline. In some Programme areas this had a detrimental effect on additionality, the quality of project supported and the impacts achieved. For this reason, the Innovation Connectors are being developed as a project pipeline in advance of the Programme:
- Many evaluations, including the Combined Evaluation of the 1994-99 Objective 2 Programme in the North East and the more recent evaluation of Business Support in the 2000-06 Programme have consistently shown that higher levels of impact are associated with more intensive interventions including the improvement of access to finance. These types of intervention have a higher average cost per beneficiary SME, but a greater level of additionality, impact and value for-money and will be a strong feature of the 2007-13 Programme. For related reasons, the implementation of support under this Priority will feature an account-management approach which will ensure higher levels of support and more tailored support for those high value adding businesses that are seen as having greater growth potential.
- Evaluations, including Mid-term Evaluations of 2000-06 Programmes across England, have consistently identified difficulties in co-ordinating ERDF and ESF between Programmes. For this reason, the Regional Competitiveness and Employment Programme in the North East will exploit the flexibility under the new Regulation to use up to 10% of ERDF to fund ESF-type actions. This may include support for distinct classes of action, such as support for higher-level skills as well as complementary actions where, for example, the addition of some training will add value to ERDF projects.
- Evaluations, including those in the North East, have demonstrated that technology-based interventions produce conventional business outcomes, but that these tend to be more skewed towards increasing turnover, improving productivity and safeguarding employment rather than the creation of new employment in the short term. However, evaluations, including the business support evaluation in the North East, have highlighted the need for acceptance of risk to business outcomes where investment in R&D and the bringing of new products and services to market are concerned.
- Partnerships between the public sector, the voluntary and community sector and employers have been shown to be effective in affording access for local people and residents of disadvantaged areas to employment opportunities arising from capital-led developments. This has been demonstrated in the North East over many years, for example, in the affording of construction skills and IT training for local communities in parallel with large-scale regeneration schemes in the 1990s and more recently in Objective 2 support for job-linkage schemes connected with the development of strategic sites. Such an approach to community engagement will be applied in relation to the development of Innovation Connectors.



## Strategy for the Priority

The strategy for Priority One will comprise three Fields of Action. These, together with their indicative financial weighting within the Priority are as follows:

- investment in Innovation Connectors (40% - 55%).
- support for innovation and technology-led sectors (40% - 55%).
- exploitation of the science base. (5% - 10%).

This strategy will provide for capital and revenue actions that are primarily directed at the technology-based sectors (the Three Pillars) identified as part of the S4S in the Regional Economic Strategy. The priority sectors are as follows:

- energy and the environment
- healthcare and health sciences
- process industries

Collectively these priority sectors represent the main vehicle available to the region to raise productivity and to continue the process of re-structuring of the North East economy. Within the context of the RES the 'Three Pillars' are complemented by a strong commitment to design and product innovation, which underpins the strategic approach.

### Field of Action 1:

#### Investment in Innovation Connectors

Innovation Connector projects will augment capacity in the region's Universities and Centres of Excellence by providing a spatially distributed, geographical focus for the application of science and innovation related activities, particularly in fields relevant to the priority sectors. Innovation Connectors will combine leading edge facilities, joint business and university research and development programmes, education and access to employment programmes.

While some will consolidate development in the core of the two city-regions, given that sustainable urban development is at the heart of the RES and hence this Programme, a wider dispersal of these initiatives is expected and will be encouraged where viable, in view of their potential contribution to addressing spatial disparities in economic and social inclusion. As well as having a specialised technology focus, the development of Innovation Connectors will provide a focus for local physical regeneration and a wide range of opportunities that will be open to local businesses and residents, for example, in site management or in supplying goods and services to the Innovation Connectors.

Identified Innovation Connector projects are located in specific areas with a spread across the region and include:

- **Regional Energy Centres**, of which there will be several distributed around the region, including NaREC at **Blyth in Northumberland**, with others in **Easington** (e.g. the Geo-Thermal Research, Education and Training (GREAT) Institute, **Weardale and Tees Valley** which will focus on distinctive aspects of new and renewable energy technology and its application. These projects will make a significant contribution to the Programme's sustainability objectives and wider energy strategy..
- **Newcastle Science City**, with a focus on life sciences, energy and molecular engineering.
- **The Design Centre for the North**, based in **Gateshead**, which will exploit the creative strengths in the region's universities and will support SMEs in developing new products and services.

- **Digital City**, in **Middlesbrough**, which will exploit the University of Teesside's innovative strengths and its connections with the region's digital media SMEs.
- **The Wilton Centre**, also in **Tees Valley**, with its focus on materials technology research and applications.
- **The Software City** initiative in **Sunderland** that will drive the creation and growth of software SMEs.
- **NetPark**, at **Sedgefield in County Durham**, an R&D centre concerned with innovation in electronics and electronic engineering.

A map showing the inter-relationship between the Innovation Connectors and the region's disadvantaged communities is overleaf. It is clear from this that the Innovation Connectors will, in general, provide opportunities for economic growth, regeneration and employment in the urban cores of the City Regions, and – within Northumberland and Durham – the severely disadvantaged former coalfield areas.

# Innovation Connectors and Indicator Summary

Shows number of indicators for which ward is below national median value.

Indicators used:

- Local VAT stocks per 10,000 working age population.
- Proportion of working age population with Level 4/5 qualifications.
- Proportion of workers employed in manufacturing.
- Proportion of working age non-students in employment.



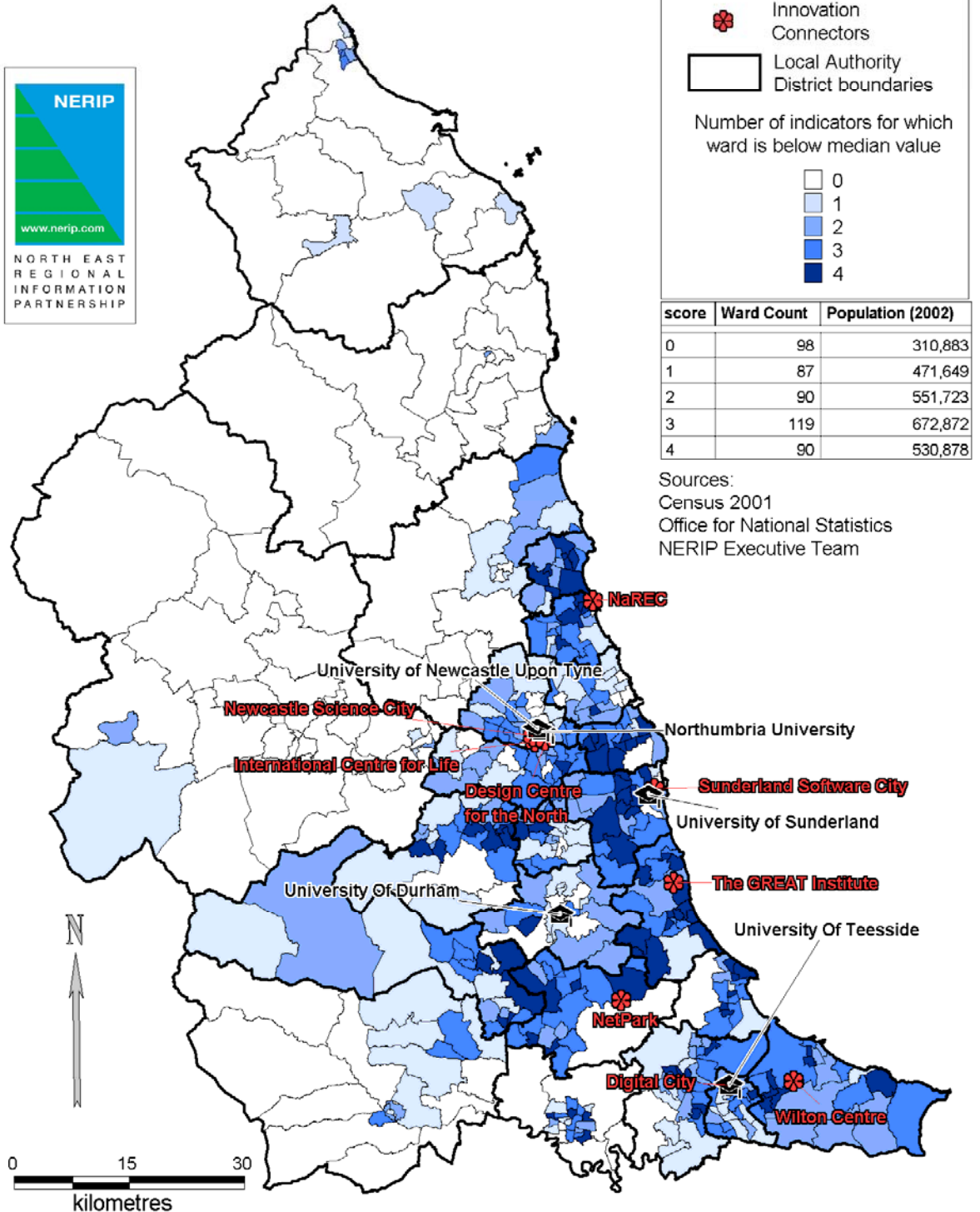
Universities  
 Innovation Connectors  
 Local Authority District boundaries

Number of indicators for which ward is below median value

	0
	1
	2
	3
	4

score	Ward Count	Population (2002)
0	98	310,883
1	87	471,649
2	90	551,723
3	119	672,872
4	90	530,878

Sources:  
 Census 2001  
 Office for National Statistics  
 NERIP Executive Team



The primary activities supported under this Field of Action will be directly concerned with development of Innovation Connector projects and will encompass:

- reclamation and preparation of sites and associated infrastructures, including management of environmental risks.
- premises and other capital works associated with exploitation of innovation, science and energy.
- associated environmental and public realm improvements.

The partnership also acknowledge that supporting investments might be necessary as an integral element of Innovation Connectors to secure a strong linkage to local communities, to ensure that the benefits of Priority 1 are spread widely, and thereby to contribute to the objective of reducing spatial disparities in economic and social inclusion. These supporting investments will depend on the circumstances of specific Innovation Connectors, but will potentially include:

- raising community awareness of how science matters in everyday life and raising aspirations of young people to study science, in order to enhance the sustainability of investment in the science and innovation agenda. Action may include support for innovative projects involving inputs from schools and local communities.
- community engagement actions, making use of capacity within communities, including that in the voluntary and community sector, to promote and animate residents in relation to science and related opportunities, including the promotion of employment opportunities linked to the Innovation Connectors and to sustainable urban development. These may be supported using the flexibility afforded under the ERDF Regulation where there is a need to support interventions not/adequately covered in the England ESF Operational Programme.

In addition, support may be provided under Priority 2 for the development of supply chains related to Innovation Connectors, including for the potential role of social enterprises in this.

**Innovation Connectors Case Study: The New and Renewable Energy Centre (NaREC) at Blyth**

As part of the region's strategic approach to new and renewable energy NaREC has been established to provide independent research, testing and development facilities and engineering consultancy support across a broad range of energy technologies. Among its diverse portfolio of activities, NaREC is working with manufacturers to increase the efficiency of wind generated electricity, recognising constraints on increasing the number of onshore sites in Europe where wind turbines can be deployed.

At the same time, NaREC has been involved in supporting the community application of new energy technologies, including the use of micro-renewables to address fuel poverty in rural and other disadvantaged areas. This has also included the exploitation of residual geo-thermal energy in former coal-mining areas, including the opportunity to build on and redeploying traditional engineering skills at the Geo-Thermal Research, Education and Training (GREAT ) Institute in Easington (County Durham), as part of the emerging Regional Energy Centres network.

NaREC itself is providing a focus for physical and economic regeneration in Blyth, in Northumberland, with both business premises and public realm improvements following on. The Centre has helped disperse high-quality jobs to a location outside the region's development hot-spots and, in the process, has generated opportunities for both local residents and businesses.

## Field of Action 2:

### Support for innovation and technology-led sectors

This Field of Action is primarily concerned with revenue activities connected with innovation. In order to complement the support for business growth under Priority 2 the focus of interventions will be confined to actions connected with innovation. Where the priority sectors are concerned, support is likely to be tailored to the needs of individual SMEs or groups of SMEs with significant high value added potential and their supply chains. Actions will focus upon:

- development of linkages between technology providers and SMEs.
- business diagnostic services leading to support with accessing and implementing suitable technical solutions
- financial & technology support for the development of new products and processes
- network facilitation
- initiatives to attract inward investment in key sectors.
- revenue actions by Centres of Excellence and Innovation Connectors in delivering technology support to these sectors, including support with the development of new products and processes.
- support with accessing finance for investment.

Implementation will take account of the Technology Strategy Board (TSB), a new Executive Non-Departmental Public Body, which is being set up to develop a coherent UK-wide strategy for technological innovation and to deliver a programme of Government financial support to encourage business investment in, and use of, technology across all sectors of the UK economy. Where Structural Funds interventions aim to promote innovation and knowledge transfer, they will seek to achieve alignment with national priorities and maximise the benefits from collaborating with TSB supported programmes.

#### **Support for Innovation Case Study: Grants for Research and Development**

For many businesses, technological innovation is key to improving productivity, competitiveness and growth. In the North East, ERDF has played a prominent role in extending initiatives to address the region's low level of business R&D expenditure.

A portfolio of grants has been developed to encourage small and medium-sized companies to undertake research they would otherwise not have pursued due to financial constraints. These range from grants of up to £20,000 for micro-projects lasting up to a year through to support up to £500,000 for development projects that can run for as long as three years. Proposals are subject to expert appraisal and have to demonstrate their worth in terms of the level of technical innovation involved and their commercial prospects, among other criteria. Grant support can be used by SMEs to carry out their own research using internal resources, but the majority of projects support collaboration with the region's Universities, Innovation Connectors and other organisations conducting primary research.

### Field of Action 3:

#### Exploitation of the Science Base

This Field of Action will support the commercialisation of knowledge and spin-out of SMEs from universities and other organisations which conduct primary research.

Specific actions will include:

- support for research into commercial feasibility of scientific and technical innovation.
- direct support to SMEs to build capacity linked to science and design base
- support with business planning.
- financial assistance with working capital and investment.

#### **Exploiting the Science Base Case Study: The Three Pillars Investment Fund**

During the 2000-06 period, ERDF has contributed to the development of a series of innovative funding schemes designed to overcome gaps in commercial finance and related obstacles to the creation of new businesses in the North East.

The Three Pillars Investment Fund is a seed capital fund and is intended to support start-up companies in the region's priority sectors where funding is needed for the development of early stage technologies through to the point where they are attractive for further investment. It will operate where, due to the unproven state of technology, banks are unwilling to lend to entrepreneurs and conventional venture capital companies would not have a prospect of early returns.

The funding will be allocated through the Pillar Centres of Excellence working with the independent technology venturing company NStar which administered the successful ERDF-supported North East Proof of Concept Fund. As well as providing finance to selected new-starts, the scheme will contribute management skills and business experience to give projects the best possible chance of success.

Overall, it is envisaged that a substantial proportion of the Enhancing and Exploiting Innovation Priority will be capital actions, focused, in particular, upon Innovation Connector premises and integrated improvements to the public realm where appropriate

A minimum of 1% of resources under the Enhancing and Exploiting Innovation Priority will be devoted to innovative actions. These could include new approaches that seek to engage the residents of disadvantaged communities in raising awareness of the innovation agenda and its impact upon everyday life.. These resources will support the development, evaluation and, where demonstrably worthwhile, encouragement for mainstreaming of actions that hold the prospect of added value over current approaches.

ERDF resources may be used to activate special purpose investment vehicles, including JESSICA to cover Innovation Connectors and associated capital investment. Where investment in business is concerned, the opportunities afforded by the JEREMIE initiative will also be considered, as will the potential to establish further financial engineering instruments in the region, building on the experience of the 2000-06 Objective 2 Programme.

#### **Use of ERDF resources for ESF type activities**

In line with the objectives of the Enhancing and Exploiting Innovation Priority, the partnership may wish to utilise the flexibility permitted within Article 34 of Council Regulation (EC) N0. 1083/2006 i.e. to use up to 10% of ERDF resources in support of ESF type activities. This flexibility will be used only where it is identified as an integral part of broader project actions

(e.g. to ensure that employees in an Innovation Connector are suitably skilled or qualified), and where there is a need to support interventions not/not adequately covered in the England ESF Operational Programme. The ESF-type activities will be embedded within ERDF projects. It is envisaged that this will include:

- Actions in support of specific higher level skills linked to successful implementation of Innovation Connectors e.g. post graduate qualifications in targeted research fields and / or to build the capacity in SMEs in targeted sectors linked to Innovation Connectors.
- Actions in support of community engagement linked directly to Innovation Connectors e.g. activities designed to raise aspirations in schools and local communities and to broaden understanding of the application of the science and innovation agenda in everyday life.

The context for these potential interventions is provided by the inclusion of skills as a driver of productivity (as described in the UK NSRF) and the need to identify opportunities to ensure that projects supported under this Priority incorporate activities that spread the benefits of investments to disadvantaged communities.

A close dialogue between ERDF and ESF Programme managers will ensure that, before committing a proportion of an ERDF project to ESF type activities, there is no opportunity to support those activities under the ESF Programme.

The provisional categorisation of activity included in Chapter 8 of this programme shows how categories 74 and 71 would be relevant if the flexibility option is pursued, with a maximum of 100% of category 74 (first bullet point above) and 45% of category 71 (second bullet point above) being utilised.

### **Integration of the Cross-cutting Themes**

Delivery of the Programme, either through the project commissioning approach or through calls for applications, will require project promoters to integrate the themes of equal opportunities, environmental sustainability and economic inclusion in an appropriate and meaningful fashion.

#### Equal Opportunities

Priority will be given to proposals that demonstrate a meaningful integration of equal opportunities issues including equal opportunities for men and women, for disabled people and for members of disadvantaged groups. Potential actions include:

- the integration of equality and diversity issues in business diagnosis.
- extension of training provision, where supported, to include under-represented groups.
- in the context of Innovation Connectors, activities that help to integrate the facilities within local communities, offering employment opportunities, where possible.

#### Environmental Sustainability

Priority will be given to proposals that demonstrate meaningful integration of environmental sustainability within mainstream projects. Potential actions include:

- consideration of environmentally sensitive travel-to-work and labour market access solutions for developing Innovation Connectors.
- the integration of environmental management issues in business diagnosis and follow-up support, including training in environmental management.

- assessment of the environmental performance of new products and services supported.
- a high standard of design and environmental performance in supported premises and associated public realm. Where BREEAM standards are applicable, projects must achieve at least "good" status.

#### Addressing Spatial Disparities in Economic Inclusion

Priority will be given to proposals that contribute to balanced spatial development and reduction in disparities of economic inclusion. The PMC may agree that intervention rates may be modulated in order to take account of the differing intensity of market failure across the region. Other potential actions include:

- positive action to engage disadvantaged communities with employment opportunities around developing Innovation Connectors.
- activities in disadvantaged areas designed to raise aspirations and awareness of implications of innovation and science to everyday life.

#### **Final Beneficiaries**

Business development agencies, higher and further education institutions, local authorities and other bodies in the public, private and third sectors.

#### **Target Beneficiaries**

Prospective entrepreneurs, new and existing SMEs, inward locating SMEs, and sector interest organisations in the North East of England.

#### **Resources and Weighting**

The provisional financial allocation to Priority 1 is as follows:

<b>PRIORITY 1: ENHANCING AND EXPLOITING INNOVATION, Financial RESOURCES</b>		
Source	€m	£m at planning rate of € 1 = £0.68 £
ERDF	199.120	135.401
UK Public	179.208	121.861
UK Private	19.912	13.54
<b>Total</b>	<b>398.240</b>	<b>270.803</b>

The anticipated weighting of actions is:

- investment in Innovation Connectors 40%-55%.
- support for innovation and technology-led sectors 40%-55%.
- exploitation of the science base 5%-10%.



## Performance Indicators and Targets

The scheme of performance indicators proposed below draws from that developed for use in all ERDF-funded Programmes by CLG plus region specific targets.

Indicator	Target
<b>Outputs</b>	
No of new SMEs and spin-out business assisted with innovation, including integrated development of workforce skills where appropriate.	2,072 *
No of SMEs assisted with innovation, including integrated development of workforce skills where appropriate.	4,434 *
No of SMEs receiving financial assistance.	202 *
Area of R&D premises developed (m2).	51,238
Brownfield land reclaimed &/or redeveloped (ha).	21.4
No of integrated packages of activity to embed the benefits of investments in innovation in disadvantaged communities	10
No. of people in the workforce of SMEs working in collaboration with Innovation Connectors and/or Centres of Excellence, or in those organisations, assisted with skills development	2,233
<b>Results</b>	
No. of gross jobs created, of which	3,605
(i) men	1,983
(ii) women	1,622
(iii) in disadvantaged areas	180
No. of gross jobs safeguarded, of which	8,411
(i) men	4,626
(ii) women	3,785
(iii) in disadvantaged areas	421
No. of businesses assisted with improved performance	6,037 *
No. of businesses assisted with improved environmental management, of which related to improved energy efficiency, micro-renewables and other management of carbon footprint	671 *
No. of assisted businesses within the region engaged in new collaborations with the knowledge base	470 *
No. of assisted businesses within the region engaged in new collaborations with the knowledge base	1,677 *
Private sector expenditure on R&D levered	£450m
<b>Impacts</b>	
Net Increase in GVA as a result of the Programme	£545.0m
Net Increase in employment	9,084

\* for these results and indicators each year's Annual Implementation Report will include information about the size of businesses assisted, categorised as those with 1-10 employees and those with 11-249 employees.

## Categories of Intervention

The overarching context for this Programme is the Lisbon Agenda. Structural Funds Regulations require that at least 75% of the Programme's expenditure will be related to Lisbon. To enable analyses to be made of the Structural Funds contribution to Lisbon a system of categorisation has been developed by the Commission. An indicative costed categorisation for the entire Programme is included in chapter 8.

The Annual Implementation Report produced each year will identify what was actually delivered in the previous year and how much ERDF was spent on the activities. The purpose of this is for the Commission to report levels of expenditure to the European Parliament.

## 4.5 Priority Two: Business Growth and Enterprise

### Specific Objectives

By 2015, to contribute to increased business density and higher levels of productivity and competitiveness within the business base through actions leading to:

- the creation of 3006 new SMEs, of which a minimum of 15% will be in disadvantaged areas.
- the creation/safeguarding of 16450 gross jobs of which up to 15 % in disadvantaged areas.
- improved environmental management and energy efficiency in 2178 assisted SMEs.
- the generation of £538.9m in net additional GVA per annum.

### Rationale for Intervention

The North East's economy lags behind other regions in the UK. As highlighted in the socio-economic and SWOT analyses, key issues causing the gap between the North East and other regions include low levels of business generation, consequent low business density and low productivity. Stimulating a faster rate of business formation is one of the main avenues open to the region in addressing its employment, productivity and enterprise deficits. In seeking to raise performance therefore this priority will focus investment upon the 9 key economic sectors identified following independent research as part of the development of the Regional Economic Strategy which have comparative advantage and/or have the potential for higher growth. These are as follows:

- Chemicals and pharmaceuticals
- Automotive
- Defence and Marine
- Food and Drink
- Energy
- Knowledge intensive business services
- Tourism and hospitality
- Commercial creative
- Health and social care

The North East has by far the lowest level of business density for any region in the UK, at just over half of the England average. While business survival rates are improving and are now close to the national average, business formation remains low with the rate of VAT registrations in England only lower in the South West during 2004.

There is an enterprise deficit, with self-employment the lowest for any English region, and absolute numbers declining over time. A lower proportion of the businesses generated in the North East are in higher knowledge intensive industries in comparison to England as a whole, with the result that new business formation is not making as much of a contribution to closing the regional productivity gap as might be hoped. Low business formation is a major contributor to the enterprise deficit in the North East.

The current low level of business density, combined with a number of other factors such as high proportion of public sector employment, low workforce skills and a relatively high prevalence of lower added value employment, contribute to the North East's low productivity levels. As such over the past 10 years there has been a widening in the gap between the North East and England in terms of GVA per head which, although this has stabilised in recent years, remains significant.

There is an important spatial dimension to patterns in the business base in the North East. Tees Valley fares worst out of the North East sub-regions, with the lowest rate of growth in the number of businesses and lowest level of business density. The rate of VAT registrations is particularly low and has declined in absolute terms over time. As Tees Valley already had the lowest number of VAT registrations per 1,000 population in the North East, the gap between it and the other sub-regions is increasing. The Tyne and Wear sub-region also has a particularly low business growth rate in comparison to the North East average.

Research undertaken into the performance of businesses in the North East (*Why North East Businesses Fail, Trends Research, 2002*) highlights weaknesses in management processes, in particular, poor appreciation of market requirements and weak financial management. This confirms the findings of the regional study on Competitiveness from the late 1990s (*The Competitiveness Project, NEO, 1998*). In addition, more research (*Benchmarking of Business Support for INTERREG IIIC Partners, Fraser Associates/EPRC, 2004*) has reported significant gaps in funding both for new businesses and to facilitate business growth.

To an extent this has been addressed in recent years through the establishment of a series of financial engineering initiatives (utilising Objective 2 support) where a recent study (*Evaluation of Objective Two Business Support Activities in the North East, Regeneris, 2006*) highlighted positive results and a strong case for continued support for financial engineering.

In conclusion, as identified above, the low business density and formation rate that characterises the North East relative to the national average represents a fundamental challenge to the achievement of the region's economic developments objectives. The partnership's strategy for this component of the Programme therefore reflects this reality by intervening to address firstly, the general underperformance of the region in terms of business competitiveness and growth and secondly, prioritising enterprise interventions to address the even deeper problems faced in the more disadvantaged parts of the region .

### **Applying the Lessons From Past Programmes**

The development of the Programme has taken into account the lessons from evaluations of EU-funded regional development programmes across the UK as well as studies that are specific to the North East of England. The main lessons that are relevant to the Business Growth and Enterprise Priority are as follows.

- Many evaluations, including the combined evaluation of the 1994-99 Objective 2 Programme in the North East and the more recent evaluation of business support in the 2000-06 Programme, have consistently shown that higher levels of impact are associated with more intensive interventions including the improvement of access to finance. These types of intervention have a higher average cost per beneficiary SME, but a greater level of additionality, impact and value for-money and will be a strong feature of the 2007-13 Programme. For related reasons, the implementation of support under this Priority will feature an account-management approach that will ensure higher levels of, and more tailored support for, those businesses that are seen as having significant growth potential.
- Mid-term evaluations of the 2000-06 Programmes across England, have consistently identified difficulties in co-ordinating ERDF and ESF between Programmes. For this reason, the Regional Competitiveness and Employment Programme in the North East may exploit the flexibility under the new Regulation to use up to 10% of ERDF in each Priority to fund ESF-type actions. This may include support for distinct classes of action, such as providing SMEs with access for higher level skills training which will not be a priority for the Regional ESF Plan, as well as complementary actions where, for example, the addition of some training will add value to specific ERDF projects.

- Several evaluations of past Programmes, including those in the North East, identified the separation of support for enterprise and existing businesses as limiting flexibility and as an obstacle to take-up. The development of the Programme at Priority level rather than through a series of Measures should help to overcome this.
- In addition, the mid-term evaluation of the 2000-06 Objective 2 Programme found that disaggregation of business support into a large number of discrete projects rather than broader packages of support militated against absorption. This, along with the DTI agenda of de-proliferation, resulted in a pioneering move towards the Information, Diagnostic and Brokerage (IDB) model of business support and commissioning of this activity via the Business Link brand in the second half of the Programme.
- IDB services are recognised as a more cost-effective and independent means of identifying business needs and tailoring suitable service provision for the customer. The 2007-13 Programme will therefore continue to be implemented primarily through the Business Link (IDB) model which should improve efficiency and absorption with limited resources.
- The mid-term evaluation and the evaluation of business support in the North East also highlighted a need for greater stimulation of demand, both in the form of promoting enterprise and generating interest in services among businesses.
- Programme evaluations have also shown that increasing levels of enterprise in deprived areas remains a considerable challenge. The enterprise component of Priority 2 will therefore prioritise investment in the most disadvantaged areas of the region, in particular seeking to build on support provided in LEGI areas where appropriate and extend and replicate the LEGI approach to other non-LEGI but disadvantaged areas in the region.
- Evaluations of business support in the North East and elsewhere have highlighted the more limited absorption potential of businesses in rural areas due to a combination of relative scale and the greater incidence of businesses that are not a priority for public support, such as close-to-retailing businesses. Implementation of business support actions in rural areas will seek to maximise the available potential through:
  - a commitment to personalised service even in remote areas.
  - local branding of services where this will help to improve take-up.
  - appreciation that opportunities in rural areas may be unconventional and require risk-taking on part of both the public and private sectors.
  - a commitment to maintain the level and quality of service in rural areas, recognising the particular needs of rural businesses (e.g. craft and tourism sectors).
- The OECD study of the Newcastle City Region highlighted the skills and cultural attributes of economic migrants to the North East and the need for a positive approach to avoid their potential being confined to lower levels of the labour market. Implementation of business support actions will therefore seek to tap into the enterprise culture of these groups through a targeted approach and appropriate support, as with other ethnic minorities. In addition, the programme will seek to build on the region's international and inward investment work to attract new entrepreneurs to the region and there may be scope to develop linkages with other European regions under the partnership's clear agreement to support transnational activity through this Programme.

## Strategy for the Priority

The strategy for this Priority will involve two Fields of Action. These, together with their indicative financial weighting within the Priority are as follows:

- Cultivating and sustaining enterprise (including social / community enterprise) in disadvantaged areas, (30%-40%).
- Enhancing the competitiveness and growth of the region's existing SMEs (including social / community based enterprises) (60%-70%).

Together these activities will help to address spatial disparities, restructure the region's business base, provide new job opportunities through business establishment and growth, and safeguard existing jobs through improved efficiencies.

There are significant spatial variations in enterprise within the region. As illustrated within the socio-economic analysis the region as a whole performs badly against national average in terms of enterprise, for example, in 2004 there were only half as many VAT registrations in the North East per 10,000 population relative to England average, with an index score of 53 where England =100. The index score for sub-regions also scores significant disparities at sub-regional level, with County Durham (56), Tyne and Wear (53) close to the regional average whereas Tees Valley was significantly lower (44). However, although Northumberland was slightly above the regional average at (67), both collectively and individually, the region and its sub-regions continue to under-perform against the national average.

To an extent performance at sub-regional level also masks the acute problems faced within sub-regions themselves and the variation in performance at district or sub-district level is marked. For example, in both Northumberland and Durham there are significant variations in performance with former coalfield areas, in particular, under-performing against the sub-regional average and in Tyne and Wear and Tees Valley the urban and inner city areas experiencing difficulties.

The Priority will address spatial disparities by focusing enterprise based interventions on the most disadvantaged parts of the region in order to deepen and extend enterprise and LEGI type activities. This will be complemented at a regional level by ongoing prioritisation of key disadvantaged groups as exemplified in the region's Women's Enterprise Strategy, Young Entrepreneurs Programme and commitment, via the Regional Compact, to community based and / or social enterprise.

It is further anticipated that actions under this priority will substantially be delivered using the region's Information, Diagnostic and Brokerage (IDB) model with ERDF interventions helping to further tailor and individualise mainstream provision and support additional business solutions, ensuring that it is suitably attuned to the needs of rural and urban SMEs (including where these are located in disadvantaged areas) and social enterprise in order that Business Link North East can link entrepreneurs and existing SMEs across the whole of the region with the most appropriate sources of support drawn from both public and private sector providers.

In terms of Business Link North East ERDF support will enhance service delivery through the provision of additional brokers on the ground and additional funds that will allow the Investment Centre (which funds the brokered solutions where appropriate) to support delivery of a wider range of business solutions to SMEs in the region. For example, ERDF will contribute towards solutions that enhance the availability of financial instruments to regional SMES that roll out best practice in productivity based interventions and promote activities designed to underpin the efficient use of energy and resource management in SMEs and the business community across the region.

EU resources will therefore allow BLNE a greater focus on specific sectors and to provide additional support in key locations so as to raise the intensity of support in line with the priorities of the OP.

This will involve a radical transformation in the architecture and delivery of business support. It will simplify access to support for businesses by replacing a plethora of initiatives with a single interface. It will also replace a largely product-driven business support structure with an approach that is more tailored to the needs of individual businesses many of which continue to face obstacles to the take up of mainstream provision. This approach, which should not be perceived as exclusive to innovative actions supplementing "mainstream delivery", is in line with the Business Support Simplification Process (see box below).

#### **Business Support Simplification Programme**

UK Government expects ERDF to be aligned with and support the emerging strategy for the simplification of business support - the Business Support Simplification Programme (BSSP). The BSSP has agreed a broad definition of business support:

Any publicly funded activity that benefits a business or potential business through grant, subsidy, advice or other service.

The definition includes support to businesses designed to achieve wider economic, environmental, regulatory, social or cultural objectives. All levels of government are working together to develop a flexible, comprehensive and shared portfolio of business support products deployable across the public sector, to meet business needs and deliver policy aims. Standard descriptions will provide assurance of the quality of a product's design and rationale. ERDF funding can be used to extend the scope of these products and improve access to priority groups. Genuinely innovative products will eventually become part of the shared portfolio. A standard approach to branding these products will allow for shared branding across funding streams.

Where ERDF proposals impact on business, they must be clear how they plan to use the Business Link information, diagnosis and brokerage model to best effect, simply duplicating this activity may not represent an effective use of funds. ERDF activity will add value to domestic funding and procurement will comply with EU and national guidelines on open and competitive tendering arrangements.

#### **Field of Action 1:**

##### **Cultivating and Sustaining Enterprise, including Social Enterprise, in Disadvantaged Areas**

The enterprise focus of the Business Growth and Enterprise Priority will support a variety of actions to increase the number of new and start-up businesses in the North East and will complement the regional priority to create an "enterprise surge". This component of the programme will prioritise interventions in the disadvantaged parts of the region in order to deepen enterprise and Local Enterprise Growth Initiative (LEGI) related activity. The intention is to replicate and therefore extend LEGI type activity to other most disadvantaged parts of the region in addition to those areas selected by national government for LEGI status. The areas of greatest need are identified in the map shown later, based on economic indices, but the regions PMC may wish to refine the areas to be targeted.

## LEGI

The Local Enterprise Growth Initiative, (LEGI), is a government programme that aims to improve the economic vitality of the most deprived areas of England by promoting enterprise and stimulating investment.

By focussing on Neighbourhood Renewal Areas or combinations of Neighbourhood Renewal Areas within different LAs, LEGI provides for a concentration of resources over a sustained period for those areas that have greatest need. The initiative represents an opportunity to achieve sustainable economic impact that will make a significant contribution to addressing the region's enterprise gap with the rest of the UK.

So far, the North East has benefited through the approval of four LEGI programmes to stimulate enterprise in disadvantaged areas. These proposals represent £49m additional resource for the North East up to 2009, with further funding anticipated for these areas for the duration of their programmes which will run until 2017.

These local programmes have been selected on the basis of long-term proposals that demonstrate consistency with the simplification agenda by integrating additional activities within mainstream business support provided by Business Link.

ERDF funding will seek to **deepen** support in the already identified LEGI areas where appropriate and **extend** the LEGI approach by applying the LEGI methodology to other disadvantaged areas in the region. The aim is to ensure that the benefits of the LEGI programme will be maximised for the North East through the concentration of resources on high impact proposals in targeted areas that have a clear spatial focus on deprived areas.

Measures to actively encourage the pursuit of business ideas and pre-start-up assistance will help entrepreneurs to develop business ideas and access to appropriate financial and support packages will be provided to secure a substantial increase in the number of business start ups particularly focusing upon disadvantaged areas.

Enterprise actions supported will also include assistance to enterprises/entrepreneurs with the exploitation of advanced ICT applications, including e-commerce, to improve access to markets and increase the viability of new SMEs. As part of the region's commitment to reducing its carbon emissions support with environmental management will be built into start-up support to assist business start-ups to reduce energy costs, minimise waste and offset their environmental footprint.

Action under this field will therefore address spatial disparities in start-up rates and economic inclusion in enterprise by prioritising the most disadvantaged parts of the region e.g.:

i) advice, guidance and assistance for entrepreneurs and SMEs will respond to appropriate market segmentation and be accessible to individuals and SMEs in targeted areas of the North East and will be promoted to and adapted to the needs of women, ethnic minorities including recent economic migrants, people with disabilities, people from deprived neighbourhoods and other disadvantaged groups.

ii) actions will prioritise engagement with residents of targeted areas of the region, with special attention to those areas where levels of start-up and take-up of enterprise support are low. In disadvantaged areas, for example, ERDF support may

add value by enhancing support in Housing Market Renewal areas and in Local Enterprise Growth Initiative (LEGI) areas or by applying its principles in areas that were also identified as potentially suitable for support under the LEGI scheme. In rural areas, the delivery of support may be tailored to overcome identified barriers to take-up (see Case Study below).

A map of LEGI areas overlaying disadvantaged areas, illustrates how some of the region's rural areas will benefit from the initiative (overleaf).

Specific enterprise actions supported by the Priority will include:

- support for the development of an entrepreneurial culture, in particular amongst young people, with enterprise as an alternative career path, including through the provision of attractive packages of support, opportunities to research and test out ideas, coaching and mentoring provision.
- support to start-up businesses, including social enterprises, through the North East Start-up Programme will be delivered by the regional Business Link service in partnership with local initiatives, including LEGI schemes. Services provided directly and through brokerage will include: pre-start-up guidance and assistance; basic advice and information; substantive assistance (business planning, business systems and processes); and assistance with exploitation of advanced ICT applications, including e-commerce. Assistance with innovation will only be provided under Priority 1.
- dedicated support for high-growth start businesses, including financial assistance and high level coaching.
- support for spin-out of businesses from the public sector.
- where justified by market failure, such as in disadvantaged areas, creation or refurbishment of premises for business incubation. support with environmental management actions including energy efficiency and waste minimisation.
- actions to enhance the engagement of equal opportunities target groups, for example, through New Entrepreneur Scholarships, Women's Enterprise Strategy, Young Entrepreneurs and community based businesses.

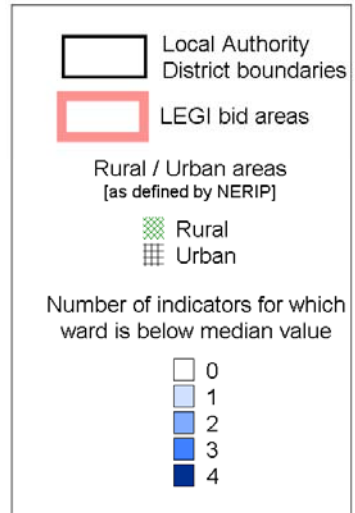


## Urban and rural LEGI areas

Shows number of indicators for which ward is below national median value.

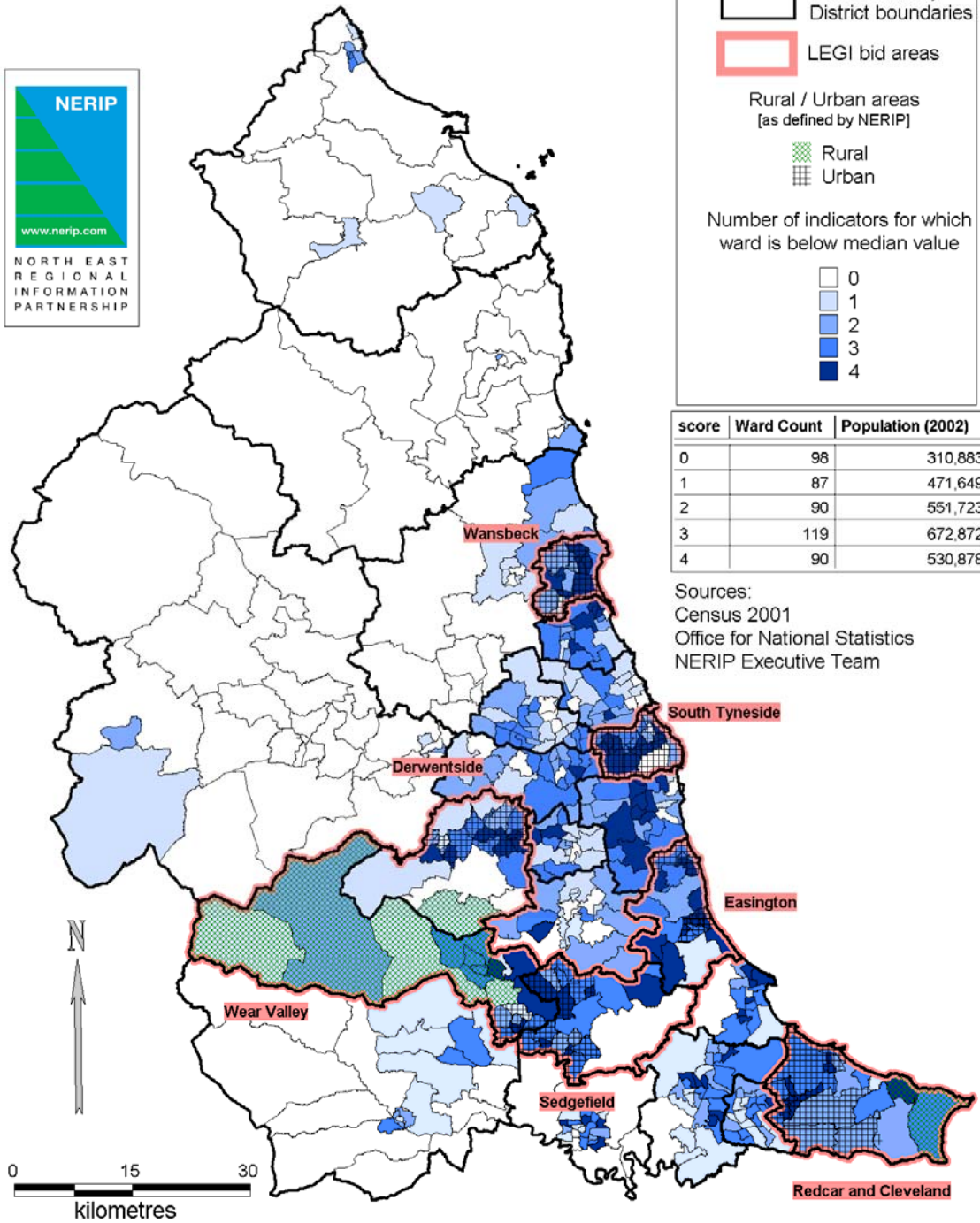
Indicators used:

- Local VAT stocks per 10,000 working age population.
- Proportion of working age population with Level 4/5 qualifications.
- Proportion of workers employed in manufacturing.
- Proportion of working age non-students in employment.



score	Ward Count	Population (2002)
0	98	310,883
1	87	471,649
2	90	551,723
3	119	672,872
4	90	530,878

Sources:  
 Census 2001  
 Office for National Statistics  
 NERIP Executive Team



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### **Cultivating Enterprise Case Study: Rural Enterprise Animation**

One of the main obstacles to employment creation in the North East has been the region's relatively small endowment of businesses. While start-up rates have improved in recent years, there remains a significant gap in the number of small enterprises, where employment growth has been concentrated in the past decade. Accordingly, the cultivation of culture of enterprise is one of the region's priorities.

Although support for enterprise development is available throughout the region, research funded by the Objective 2 Programme found that rural communities do not always recognise mainstream support as being intended for them. The ERDF-supported Rural Enterprise Tynedale project has challenged local residents, from school students to housewives, to consider the nature of enterprise, its role in the community, and whether it is an option for them.

- The Rural Enterprise Animation project will extend the experience of the pilot in Tynedale to apply the approach championed by the Sirolli Institute for promoting economic and community revitalisation. This involves engaging local leaders and entrepreneurs in resourcing a Community Enterprise Facilitator who will identify and mentor local people with ideas and help them turn these into viable enterprises.

### **Field of Action 2:**

#### **Enhancing the Competitiveness and Growth of existing SMEs, including social and community based enterprises**

As discussed above, this element of the Business Growth and Enterprise Priority will support a variety of actions to increase the growth and competitiveness of **existing** SMEs in the North East. ERDF will be utilised to ensure that there will be a strong emphasis on actions tailored to the needs of individual SMEs across all parts of the region, including help to identify development needs and support for the improvement of sustainability and competitiveness. A major focus of support will be to strengthen the business survival and growth rates of existing SMEs within the region. An illustrative example of the type of action envisaged is provided below.

### **Supporting Growth Case Study: North East Productivity Alliance**

NEPA is a regional initiative designed to assist with growth and competitiveness of the North East's manufacturing businesses. Using EU Structural Fund support, it has provided a range of services to businesses aimed at improving quality, reducing lead times and driving down costs:

- by applying best practice, including continuous improvement and latest productivity techniques.
- through workforce development, including support for change management as well as training.
- by introducing the latest digital applications, including prototyping and engineering to reduce the time-to-market for new products.
- by improving efficiency, including lean manufacturing techniques resulting in lower levels of rework and scrap.

Other support actions will include assistance to existing SMEs with exporting and other internationalisation to help them expand their business activities and assistance with exploitation of advanced ICT applications to improve efficiency and to access new markets. Provision of environmental management support and support with diversity and family-friendly working policies will help SMEs to improve efficiency by reducing resource intensity and combat recruitment difficulties by opening employment opportunities up to a wider section of the labour market.

A major focus of support under this component of the programme will complement the region's renewable energy strategy by prioritising support that strengthen the existing business base's ability to better manage its environmental impact through improved energy resource efficiency and waste minimisation.

Specific actions supported by the Priority to improve the growth and competitiveness of existing SMEs will include:

- specific initiatives to improve productivity, including support with environmental management actions such as energy efficiency and waste minimisation; help with exploiting advanced ICT applications, including e-commerce.
- business support operated through the regional Business Link and encompassing post start-up advice, information and diagnostic services and including account management of SMEs with identified growth potential.
- provision of access through brokered services to mentoring and intensive assistance (for example, business planning, business systems and processes).
- financial assistance with working capital and investment, building on the region's experience with financial engineering gained in the 2000-06 period and, potentially, taking advantage of the JEREMIE initiative.
- actions to promote sales growth, including through promoting supply chain development in the region's vertically integrated sectors; actions to help SMEs to take advantage of the liberalisation of public procurement; and assistance with exporting and other internationalisation.
- where justified by market failure, non-incubator premises for business, including integrated provision for childcare facilities.

### **Broader actions within the Priority**

In addition to the actions described under these two Fields of Action, a minimum of 1% of resources under the Business Growth and Enterprise Priority will be devoted to innovative actions.

In particular, this will provide scope to complement the region's emerging strategy for inward migration and potential support for the attraction of new entrepreneurs to the region from Europe and beyond. These resources will support the development, evaluation and, where demonstrably worthwhile, encouragement for mainstreaming of actions that hold the prospect of added value over current approaches.

Overall, it is anticipated that a limited proportion of the Business Growth and Enterprise Priority will be capital actions. These will prioritise segments of the market (for example, investment in business incubators rather than mainstream business premises) and locations (such as former coalfield areas) where property market failure remains significant.

However, ERDF resources may be used to activate special purpose investment vehicles, including JESSICA to extend investment in these areas. Where investment in business is concerned, the opportunities afforded by the JEREMIE initiative will be considered, as will the potential to establish further financial engineering instruments in the region, building on the experience of the 2000-06 Objective 2 Programme.

## **Use of ERDF Resources for ESF type Activities**

In line with the objectives of the Business Growth and Enterprise Priority, the partnership may wish to utilise the flexibility permitted within Article 34 of Regulation (EC) 1083/2006 to use up to 10% of this Priority's ERDF resources in support of ESF type activities. This opportunity will be used only where it is an integral part of broader ERDF project support (e.g. such as the NEPA model outlined in text box above) and where there is a need to support interventions not/not adequately covered in the England ESF Operational Programme. Actions embedded in broader ERDF projects will deepen support for SMEs and may include:

- higher level skills training, particularly in micro and small businesses where cost remains an obstacle to take-up.
- training that complements other investment in SMEs.
- up-skilling SME employees in the use of new products and processes.
- activities that lead to formal vocational accreditation or qualifications (and/ or where relevant to industry standard) for the SME workforce
- activities that assist the development of entrepreneurship in disadvantaged communities.

The context for these potential interventions is provided by the inclusion of skills as a driver of productivity (as described in the UK NSRF) and the need to identify opportunities to ensure that, given the very low levels of entrepreneurship in the region's most disadvantaged communities, projects supported under this Priority provide all possible means of support to foster an entrepreneurial culture.

A close dialogue between ERDF and ESF Programme managers will ensure that, before committing a proportion of an ERDF project to ESF type activities, there is no opportunity to support those activities under the ESF Programme.

The provisional categorisation of activity included in chapter 8 of this Programme shows how categories 64 and 71 would be relevant if the flexibility option is pursued, with a maximum of 100% of category 64 (first four bullet points above) and 55% of category 71 (final bullet point) being utilised.

## **Integration of the Cross-cutting Themes**

Delivery of the Programme, either through the project commissioning approach or through calls for applications, will require project promoters to integrate the themes of equal opportunities, environmental sustainability and economic inclusion in an appropriate and meaningful fashion.

### Equal Opportunities

Priority will be given to proposals that demonstrate a meaningful integration of equal opportunities issues including equal opportunities for men and women, for disabled people, for members of disadvantaged groups. Potential actions include:

- actions to enhance the relevance and appeal of enterprise support services to women, ethnic minorities including recent economic migrants, disabled people, residents of disadvantaged areas, and other equal opportunities target groups.
- action to enhance access to finance by women and other groups who have a low take-up of formal financial services and/or have limited collateral.

### Environmental Sustainability

Priority will be given to proposals that demonstrate meaningful integration of environmental sustainability within mainstream projects. Potential actions include:

- the integration of environmental management issues in business diagnosis and follow-up support, including consultancy support for environment related resource management and waste minimisation
- a high standard of design and environmental performance in supported premises and associated public realm. Where BREEAM standards are applicable, projects must achieve at least "good" status.

### Addressing Spatial Disparities in Economic Inclusion

Priority will be given to proposals that contribute to balanced spatial development and reduction in disparities of economic inclusion. The Enterprise element of this Priority will focus primarily upon the most disadvantaged parts of the region (to be confirmed by PMC). In addition, at the discretion of the PMC, intervention rates may be modulated in order to take account of the differing intensity of market failure and costs of delivery across the region. Other potential actions include:

- targeted action to increase the level of enterprise in disadvantaged areas which are characterised by very low levels of business formation which could include involvement of third sector organisations in delivering business support services in a fashion consistent with the avoidance of proliferation of new initiatives.
- the development of incubator space, targeted on areas with low levels of business generation and growth rather than development "hot-spots".
- local branding of generic support where this may help to overcome barriers to take-up, notably in rural areas.
- actions relevant to this Priority which are complementary to those supported under the EAFRD-funded Rural Development and EFF-funded Fisheries Programmes for England.

### **Final Beneficiaries**

Business development agencies, higher and further education institutions, local authorities and other bodies in the public, private and third sectors.

### **Target Beneficiaries**

Prospective entrepreneurs, new and existing SMEs, and inward locating SMEs, in the North East of England.

### **Resources and Weighting**

The provisional financial allocation to Priority 2 is as follows:

<b>PRIORITY 2: BUSINESS GROWTH AND ENTERPRISE, FINANCIAL RESOURCES</b>		
Source	€m	£m at planning rate of € 1 = £0.68 £
ERDF	161.550	109.854
UK Public	145.395	98.868
UK Private	16.155	10.98
<b>Total</b>	<b>323.101</b>	<b>219.7</b>

The anticipated weighting of actions is:

- cultivating and sustaining enterprise, including social enterprises, 30%-40%.
- enhancing the competitiveness and growth of existing SMEs, 60%-70%.

### Performance Indicators and Targets

The scheme of performance indicators proposed below draws from that developed for use in all ERDF-funded Programmes by CLG plus region specific targets.

Indicator	Target
<b>Outputs</b>	
No of new SMEs assisted, including integrated development of workforce skills where appropriate.	4,008 *
No of SMEs assisted, including integrated development of workforce skills where appropriate, and actions to include the following: <ul style="list-style-type: none"> <li>• management/leadership</li> <li>• corporate and social responsibility e.g. awareness raising on statutory and legal responsibilities</li> <li>• participation in new supply chains</li> <li>• marketing</li> <li>• process and resource efficiency e.g. in use of ICT, waste management</li> <li>• environment management</li> <li>• quality assurance</li> </ul>	6,680 *
No of SMEs receiving financial assistance.	200 *
No of integrated initiatives to develop enterprise in disadvantaged communities	14
No. of SMEs assisted that are social enterprises	267 *
Area of business premises developed (m2)	26,000
Brownfield Land reclaimed &/or redeveloped (ha)	10.3
<b>Results</b>	
No. of gross jobs created, of which	6,580
(i) men	3,619
(ii) women	2,961
(iii) in disadvantaged areas	987
No. of gross jobs safeguarded, of which	9,870
(i) men	5,429
(ii) women	4,441
(iii) in disadvantaged areas	1,480
No. of businesses assisted with improved performance, of which at least 10% to implement advanced ICT applications	9,799 *
No. of businesses assisted with improved environmental management, of which related to improved energy efficiency and micro-renewables and other management of carbon footprint	2,178 *
	1,525 *
No. of businesses created or attracted to the region	3,006 *
(i) in disadvantaged areas.	451
No. of businesses created or attracted to the region surviving 12 months	2,705 *
<b>Impacts</b>	
Net Increase in GVA as a result of the Programme	£538.9m
Net Increase in employment	10,778

\* for these results and indicators each year's Annual Implementation Report will include information about the size of businesses assisted, categorised as those with 1-10 employees and those with 11-249 employees.

The overarching context for this Programme is the Lisbon Agenda. Structural Funds Regulations require that at least 75% of the Programme's expenditure will be related to Lisbon. To enable analyses to be made of the Structural Funds contribution to Lisbon a  
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system of categorisation has been developed by the Commission. An indicative costed categorisation for the entire Programme is included in chapter 8

The Annual Implementation Report produced each year will identify what was actually delivered in the previous year and how much ERDF was spent on the activities. The purpose of this is for the Commission to report levels of expenditure to the European Parliament.

## **4.6 Priority Three: Technical Assistance**

### **Specific Objective**

Throughout the life of the Programme to facilitate effective management and accountability through:

- support for an effective and efficient appraisal and approval process.
- provision of high quality management information.
- investment in appropriate monitoring and evaluation.
- communication of what is being achieved with EU support.
- support for Programme evaluation and studies

### **Rationale for Intervention**

Technical Assistance will support the work of the Programme Monitoring Committee through support for its Secretariat and, where appropriate, the regional partnership in managing, implementing, monitoring and evaluating the Programme. It will help to overcome the weaknesses in governance identified as a strategic issue in the SWOT analysis by supporting work towards more effective partnership, greater co-ordination of regional economic development effort and through support for innovation and learning from experience.

Actions supported under this Priority will include:

- activities that will support the preparation, management, monitoring and implementation of the Operational Programme.
- support for staff costs in the Managing Authority.
- evaluations, feasibility studies, expert reports, statistics and studies, relevant to the operation of the programme.
- publicity, marketing and communications for the ERDF Programme
- support and development of the ERDF cross-cutting themes.
- the installation, operation and interconnection of computerised systems for management, monitoring, inspection and evaluation of the ERDF Programme.
- where relevant, the purchase of external expertise to ensure the delivery of any of the above actions.

Strategies for publicity and communications and for programme evaluation will be agreed by the PMC.

### **Resources and Weighting**

It is anticipated that resource will be decided broadly as follows:

- 90% - support for personnel costs
- 10% - evaluation, publicity, expertise, systems

In contrast to arrangements for securing matching funding for technical assistance grants in previous Programmes, there will be a presumption against the creation of a 'match funding pool'.

Applications for Technical Assistance should be submitted having secured, or expecting to secure, the public sector match funding. The Single Programme budget may, of course, be a source of match funding for Technical Assistance.



In accordance with EC Regulation 1083/2006, a maximum of four per cent of the Programme's ERDF resource be allocated to this priority. The provisional financial allocation to Priority 3 is as follows:

<b>PRIORITY 3: TECHNICAL ASSISTANCE, FINANCIAL RESOURCES</b>		
Source	€m	£m at planning rate of € 1 = £0.68 £
ERDF	15.027	10.218
UK Public	13.525	9.197
UK Private	1.502	1.021
Total	30.055	20.437

#### **4.7 Conclusions on Added Value from ERDF Support**

The actions supported under Priorities 1 and 2 are consistent with EU and UK policy and the Regional Economic Strategy for the North East of England. The RES provides a framework for the use of UK Government and partner organisation resources to address regional priorities which have been agreed through a lengthy and participative process. The contribution of ERDF will add value to the RES in the following ways.

ERDF will add value first of all as a result of its concentration within a subset of the overall actions supported under the RES:

- concentrated deployment of ERDF under Priority 1 will enable the programme of Innovation Connector projects to be carried forward more rapidly than would otherwise be the case.
- concentrated deployment of ERDF under Priority 1 will enhance the resources available for support of the development and application of renewable energy.
- concentrated deployment of ERDF under Priority 1 will enable community and social enterprise awareness / engagement activity linked to innovation, science and creative industries and ensure areas of need are able to link with areas of opportunity.
- concentrated deployment of ERDF under Priority 2 will deepen and extend enterprise support activity in the most disadvantaged parts of the region.
- concentrated deployment of ERDF under Priority 2 will add value by consolidating the transition to the brokerage model of business support and by enhancing and extending the support and solutions that will be provided to SMEs across the North East. For example, ERDF will deepen and extend support for access to finance and productivity focused interventions. It will enable a larger number of SMEs to benefit from intensive support than would otherwise be possible; ERDF support will also enable the higher costs of supporting SMEs in rural areas to be met, thereby contributing to a reduction in spatial inequalities.

Through its concentration in these specific thematic Priorities, ERDF will maximise its potential contribution to increasing the competitiveness of and productivity in the economy of the North East, thereby closing the gap with other regions of the EU.

The ERDF allocation to the North East is roughly equivalent to 10% of One NorthEast's annual budget. However, concentration in a limited area of the RES enables ERDF to retain a highly influential and visible role. The RES Action Plan details average Single Programme expenditure of £120m per annum 2006-2011 from the areas of the RES covered by Priorities 1 and 2. ERDF will equate to approximately 29% of this figure.

ERDF support will add value by ensuring that the formal cross-cutting themes of equal opportunities and environmental sustainability are systematically integrated within the actions supported under the Programme.

In addition, ERDF will add value through its support for actions that will enhance the contribution that Priorities 1 and 2 can make to addressing spatial disparities in economic inclusion. Examples of this include:

- extending the dispersal of Innovation Connector projects to include projects in locations where market failures are more profound and/or where economies of agglomeration are not available.
- making delivery of business support more responsive to the situation and needs of clients in disadvantaged areas and in rural areas, where costs of delivery are higher.

ERDF will add value through its support for inter-regional co-operation and networking, for example, through the Regions for Economic Change Initiative. This will include support for collaborations that have the objective of enhancing joint competitiveness on technology issues and support for the North East to be more outward-looking for solutions and in accessing good practice. Under the framework of RFEC the necessary arrangements will be made to integrate, where appropriate, into mainstream programming innovative operations identified as a result of the networks the region is involved in. Representatives of these networks will report on progress to the PMC and the networks activities and their relevance to the OP will be discussed by PMC on an annual basis. Activities undertaken as part of RFEC will be reported in the Annual Report.

ERDF will add value through the piloting of new approaches to supporting innovation and stimulating enterprise. A minimum of 1% of the value of the Programme will be devoted to innovative actions and countering the inherent conservatism within target-driven Programmes.

Visibility of the distinctive contribution made by ERDF support will be ensured through publicity actions covering all requirements, including project documentation, press releases and permanent plaques.

## **5 CROSS-CUTTING THEMES**

### **5.1 Introduction**

The cross cutting themes of environmental sustainability and equality of opportunity remain embedded in Structural Fund Regulations. This regulatory context makes the themes a powerful force in the development and implementation of Programmes. This chapter brings the themes together, explains key issues for each of them and describes how they are relevant to the Programme. Much more detail on how the themes will be respected in practice will emerge in due course when detailed management arrangements for the programme are agreed by the Programme Monitoring Committee.

During the formal programme consultation process, each theme was considered and consulted upon in depth, via a Strategic Environmental Assessment and an Equality Impact Assessment Screening report. These are annexed to the Programme.

As well as giving due regard to the two themes that are prescribed by Regulation, this Programme also addresses a third theme that has been given considerable attention during the development phase and will be afforded high priority during implementation: addressing spatial disparities in economic inclusion. This is a reflection of the region's key weaknesses, as identified in the SWOT analysis (W13 – spatial concentration of weaknesses in human resources and economic activity).

### **5.2 Environmental Sustainability**

#### **5.2.1 Introduction**

Past Objective Two Programmes have helped mainstream environmental issues within an economic development context. There have been particular successes in piloting work in relation to business efficiency, in promoting the use of BREEAM standards in built development, and in supporting projects which integrated local level environmental improvements with training and community capacity building.

The evidence base shows that there has been progress in dealing with local environmental issues, particularly in relation to pollution of air and water. However, very significant challenges remain in relation to systemic issues which relate to the wider relationship between resource and energy use and the economy. Such issues, under the heading of sustainable consumption and production, are highlighted in UK Sustainable Development Strategy, and it is against these challenges that the Programme can potentially make most difference.

There now appears to be agreement among all mainstream UK political parties that a mixture of regulation and green taxation will be required to address issues of resource and energy use, and there are already examples, such as the landfill tax, of fiscal measures being introduced with the deliberate aim of changing business and consumer behaviour. In addition, recent increases in energy costs associated with rising oil prices and the debate on energy security emphasise the need for, and benefits of, efficiency measures.

The aim of these measures, in aggregate, is effectively to change the market to better reflect environmental costs and benefits. As with any market shift, there will be a need for existing businesses to adapt, and for new businesses to take advantage of emerging market opportunities. Although limited in scale, the Regional Competitiveness and Employment ERDF Programme can contribute to supporting businesses to address these issues by improving long term economic performance while at the same time seeking to de-couple energy and resource use from economic progress.

The UK Government has made a commitment in the National Strategic Reference Framework to treating environmental sustainability as a cross-cutting theme for all future Structural Funds Programmes. This presents a challenge but more importantly an opportunity to develop new solutions and respond to new and expanding markets.

In line with the Government's sustainable development strategy, the Competitiveness Programme will address this cross cutting theme through two perspectives:

- Improving the impact of economic activity on the environment - In the context of the Structural Funds Programmes, environmental sustainability means that, at the same time as achieving their social and economic goals, projects should minimise their environmental impact and enhance environmental opportunities and benefits.
- Recognising the potential economic benefit that the environment can bring – increasingly, the environment represents a significant potential driver of the economy as environmental costs are further integrated into economic aspects. Renewable energy, waste management and environmental and culture-based tourism are examples of this approach.

In addition, in implementing the Operational Programme, due regard will be given to Point 25 of the Sustainable Development Strategy adopted by the European Council in June 2006:

“In order to ensure that EU funding is used and channelled in an optimum way to promote sustainable development, Member States and the Commission should co-ordinate to enhance complementarities and synergies between various strands of Community and other co-financing mechanisms such as cohesion policy, rural development, Life+, research and technological development (RTD), the Competitiveness and Innovation Programme (CIP) and the European Fisheries Fund (EFF).”

### **5.2.2 North East England Strategic Approach to Energy**

The UK Government is committed to making the UK one of the leading low carbon economies in the world and One North East in conjunction with partners has committed itself to becoming one of the first regions to be carbon neutral in Europe. These policy initiatives have set a context that has shaped the region's approach to energy. The intention is to prioritise action in three areas and to deliver programmes within each that move the region towards being carbon neutral, mitigating the carbon and wider environmental impact of the economic growth projected in the RES up to 2016. This ambition is reflected within both the actions and outputs of the ERDF programme.

The North East has highlighted the following three key areas for action:

1. Energy consumers (ie communities and industry), this covers among other things, fuel poverty, buildings as well as business support;
2. The Energy Sector, ie businesses providing energy goods and services, this covers skills, project development, supply chains etc; and
3. Energy technology, a comprehensive programme of work which aligns technology development activity with work to develop the market for products and services in order to effectively commercialise energy technologies.

The region's approach to new and renewable energy is reflected as part of the above approach which, in order to achieve the stated aims, includes a clear focus to develop and utilise low carbon technologies and reduce demand/improve use efficiency to reduce the

carbon from the regions consumption of energy. It is anticipated that the ERDF interventions will contribute towards actions identified above. For example:

#### *1. Energy consumers*

- ERDF will complement programmes of focussed support for the most energy intensive sectors of the region's economy, majoring on reducing energy consumption as a key factor of productivity, but crucially enabling effective decision making and support for the development of own, onsite, energy generation projects (such as Nissan wind turbines). Importantly, given the variable nature of energy prices, the principle underpinning all specialist business support of this kind is to embed the capacity within industry to manage energy in their business without the need for continuous, or urgent public support, thus creating an intelligent consumer and remedying the market failure that prompts the public sector intervention.

#### *2. The Energy Sector*

- ERDF will complement support for the development of strategic energy projects in the region, aiming to both bring business to the region (inward investment of businesses and business in terms of work for indigenous firms in construction/supply chains) and provide the platform for the full scale demonstration of new energy technologies, low carbon and integrated technologies (such as the Progressive Energy Carbon Capture and Storage project on Teesside).

#### *3. Energy Technologies – ERDF support will contribute to the following areas of action:*

- Technology development and commercialisation support at all aspects of the 'innovation chain'. Underpinned by the need to align technology development activity with market development activity.
- R&D and testing delivered by the region's universities and Centres of Excellence in collaboration with industry, core programmes of support for fuel cells, wind, marine, photovoltaic technologies and high voltage (transmission and distribution) and grid connection R&D and testing.
- Provision of proof of concept support, physical and financial, a key enabler of product commercialisation.
- Programmes to enable effective exploitation of public procurement as a driver of energy technology development (reducing carbon) and increased market penetration of products and services.

### **5.2.3 Key Facts and Related Programme Aims**

#### **Overview**

The population of the Programme area is concentrated in the urban areas of the Tyne and Wear and Tees Valley city regions, although there is increasing commuting from the surrounding, more accessible, rural areas. There have been improvements in local environmental issues, notably water and air quality, and to some extent in the re-use of previously developed land. The issues which emerge as most important for the Programme are, in general, those around the sustainable production and consumption agenda.

#### **Climate Change**

UK and European Policy Perspective recognises climate change resulting from human economic activity as a reality and is in favour of management interventions on a European scale, even though their efficacy may be limited in the absence of similar measures in America and Asia.

The Stern Review (2006) suggests that climate change threatens to be the greatest and widest-ranging market failure ever experienced. The review predicts that extreme weather could reduce GDP by up to 1% and that the poorest countries could lose more than 10% of their output. It concludes that 1% of global GDP is required to be invested in order to avoid the worst effects of climate change, and that failure to do so could risk global GDP being up to 20% lower than it otherwise might be.

Nationally, the NRSF states that all programmes must take account of the Government's goal to reduce the UK's emissions of carbon dioxide by 20% by 2010 and by 60% by 2050, in order to tackle climate change.

The combination of rising sea levels and an increasing incidence of extreme weather events means that flood risk will increase. It is important that developments funded by the programme do not increase the risk of flooding and this will be a key criterion in determining whether projects are eligible for ERDF support..

Although emissions from transport are lower than in other English regions, the transport sector (including air transport) is generating increasing emissions at present, and both road congestion and air quality are issues at local level. Reduction of the need for travel, for example through the location of new built developments, further development of local supply chains, use of ICT and video conferencing, is likely to be an increasingly important contribution to the reduction of green house gases and the achievement of the Programme's broader environmental objectives as set out within Table 5.1 .

Market and regulatory mechanisms will increasingly pressure businesses in the North East to adopt energy efficiency and environmental management measures. Although energy intensive industries in the North East may face particular challenges, alternative energy industries will enjoy growth to meet increasing demand. The region may also face longer term questions surrounding the sustainability of intensive air travel, which has been a stimulus to tourism and trade development in the North East and the focus of substantial recent job creation.

### **Resource Efficiency**

The North East has the most energy-intensive industry (and highest per capita emissions of CO<sub>2</sub> from industry) of any English region. As a result, the region is confronted by a combination of rising energy prices and increasing regulation that aims to reduce emissions.

Oil prices have been rising steadily from a \$10 low in 1998 to around \$60 at the end of the first quarter of 2007 (Oil energy) and a combination of economic in India and China and capacity constraints in Iraq are likely to keep prices high. Stocks of North Sea gas, which have been the focus of power generation over the past 20 years in the UK, are becoming depleted and replaced by imported supplies, notably from Russia. Security of supply is emerging as a political driver of energy policy, given that the UK could be substantially dependent on imported gas by 2020, much of which would come from areas characterised by political instability (DTI, 2007).

The energy intensity of industry in the North East means that the region is potentially vulnerable to changes in the taxation system which seeks to reduce emissions. However, rising energy prices will give businesses an incentive to adopt efficiency and management measures. The relatively high energy intensity of industry in the North East suggests that the benefits from efficiency measures are potentially much more significant. It is clear that generating capacity from renewable energy has increased, and will continue to do so. There are likely to be further economic opportunities around this market in the future, including the use of on-site renewables.

Levels of commercial and industrial waste are likely to grow in the future. At the same time, the costs of waste disposal are continuing to increase, driven by a combination of increased taxation and a need to meet higher management standards. More sustainable waste management will include promotion of waste minimisation, including design of new products to reduce material impacts, increased recycling, and promotion of the market for use of recycled materials. Although there are fewer issues in relation to water availability in the North East than in other parts of the UK, water costs represent an area of potential efficiency savings for businesses, and the evidence base shows that abstraction has been increasing.

Businesses which produce high volumes of waste, or which depend on large supplies of water, are likely to benefit most from environmental management business support. The challenge for the Programme is therefore to target:

- Environmental management support for all types of business
- More sustainable management of resources, including the management of waste; this also gives the opportunity to develop new businesses and markets.

As with energy use, it is important, in the context of innovation, that these issues are considered early in the product design process, so that solutions can be built in from the start.

### **Biodiversity and Landscape**

Biodiversity and landscape quality contribute strongly to the distinctiveness and quality of life of the region, and the need to protect and enhance these underpins all local strategies. However, the extent to which these aims can be achieved under the Competitiveness Programme is limited. The evidence suggests that the majority of direct pressures on both biodiversity and distinctive landscape are associated with agriculture and therefore fall under the remit of EAFRD, and this is reinforced in the NSRF. The Programme aim is therefore to ensure that projects consider their potential impact on biodiversity and landscape at local level, and where possible seek to contribute towards the greening of urban areas.

These aspects, as well as others around energy efficiency and materials selection, can most effectively be delivered by ensuring that all buildings are developed to BREEAM standards.

#### **5.2.4 Integration of Environmental Issues at Priority Level**

Table 5.1 shows how the activities funded by the Programme are likely to impact on the environment, and outlines the response to ensure that environmental issues are systematically considered.

<b>TABLE 5.1: Environmental Actions by Priority</b>		
<b>Priority Axis</b>	<b>Outline of activities</b>	<b>Environmental Issues &amp; Programme Approach</b>
Enhancing and Exploiting Innovation	<p>There is a significant capital element under this Priority, and a strong focus on the energy &amp; environment, healthcare, and process industry sectors. Limited investment in public transport associated with some sites is also likely.</p> <p>Revenue actions will include general support and access to finance for those businesses in the technology sector, as well as specific, technical assistance related to sectoral needs.</p>	<p>The impact associated with capital activities is clearly understood. It can most easily be managed, at strategic level, by the use of BREEAM, which captures all environmental issues associated with buildings.</p> <p>In terms of revenue actions, the critical aim is to ensure that new products and services take account of existing and future environmental needs; a study quoted by the UK Sustainable Development Strategy notes that up to 80% of the environmental impact of products are determined at the point of design.</p> <p>Although the focus on renewable energy is positive in terms of climate change, it is important that renewable energy developments take account of local environmental conditions. There may be a role for the Programme in providing training for developers to ensure awareness and understanding of these constraints.</p>
Business Growth and Enterprise	<p>The activities envisaged under this Priority are all revenue-based, and focus on the creation of new businesses, and improving the competitiveness of existing businesses, including improvements in environmental performance.</p> <p>There will also be a limited element of capital works.</p>	<p>The key environmental issue under this Priority is to improve the efficiency of use of energy and material resources in business thereby reducing greenhouse gases and the region's carbon footprint. Although start-up businesses are likely to have only limited energy and material needs, there are benefits in encouraging a more efficient use of resources from start-up, so that good practice is built into expanding businesses.</p> <p>Environmental management in existing businesses will be most effectively targeted at those which have larger energy, material and water requirements.</p> <p>As above, good practice in relation to capital projects can be assured through the use of BREEAM.</p>



### 5.2.5 Monitoring and Evaluation

The integration of environmental sustainability will be the subject of monitoring and thematic evaluation over the life of the Programme. This will ensure that the requirements of the SEA Directive (art 10.1) are met. Training by specialist advisors will be provided to ensure that monitoring officers have the capacity to effectively monitor and record environmental sustainability activity and data. This will include the collation of best practice case studies. Data will be capable of aggregation to Programme level, permitting broader evaluation to be carried out.

Article 10.1 of the SEA Directive requires monitoring to identify unforeseen adverse effects and to enable appropriate remedial action to be taken. The factors to be monitored include:

- Biodiversity;
- Human health;
- Flora;
- Water;
- Material assets;
- Landscape.
- Population;
- Fauna;
- Soil;
- Climatic factors;
- Cultural heritage;

It is suggested by the SEA team that, in general, monitoring is best undertaken at the project level, with results periodically reviewed, e.g. annually. However, the relevant section of the Annual Implementation report will include a commentary on the regional position regarding the factors identified above.

<b>TABLE 5.2: ENVIRONMENTAL SUSTAINABILITY CROSS-CUTTING THEME - PERFORMANCE INDICATORS AND TARGETS</b>	
<b>Indicator</b>	<b>Target</b>
<b>Outputs</b>	
No of new SMEs assisted (of which assisted with environmental management).	6080 (1281)
No of businesses assisted to improve performance (of which assisted with environmental management).	11,114 (2222)
Brownfield Land reclaimed and/or redeveloped (ha)	31.7
Area of business premises/R&D premises developed (m <sup>2</sup> ) (of which to good or excellent BREAM standards)	77,238 (100%)
<b>Results</b>	
No of businesses assisted with improved environmental management (of which related to improved energy efficiency, micro-renewables and other management of carbon footprint)	2849 (1995)

### 5.2.6 Delivery

Evaluation evidence shows clearly that the extent to which projects deliver environmental gains is influenced by:

- The way in which project development, application and approval processes integrate environmental issues; and
- The availability of environmental expertise, both to assist those developing projects, and in all relevant decision-making bodies.

The NSRF emphasises the positive role of Environmental Sustainability Theme Managers in delivering environmental integration. The PMC and Article 59(2) body will ensure that environmental expertise is available in both the development and delivery of projects as well as all relevant decision-making bodies. This will include dedicated resources within the Article 59(2) body itself.

In assessing the impact of the interventions under both Priority 1 and 2, the results of programme activity in terms of increased energy efficiency, improved environmental management and reductions in carbon footprint will be measured.

While the method of delivery of the Competitiveness Programme is not yet clear, it is important that past experience informs the structures and processes which are put in place. Whichever method is selected, it will be vital to ensure that the potential environmental effects of projects are assessed at application stage, building on practice developed during previous programmes.

### **5.3 Equality and Diversity**

#### **5.3.1 General**

From the earliest Structural Funds Programmes in the UK, there has been a strong emphasis on consolidating equality of opportunity. Up until 1997 EU policy was primarily directed towards gender equal opportunities. Among wider provisions concerned with strengthening the rights of the individual in an enlarged EU, the Treaty of Amsterdam broadened the EU perspective on equal opportunities to address all forms of discrimination.

EU policy has been reflected in the mainstreaming approach to equal opportunities in the 2000-06 Programme period. It is reinforced in the regulations for 2007-13 and in the National Strategic Reference Framework, the UK Government requires all Structural Fund Programmes to "respect principles of non-discrimination and equal opportunities. Projects will be encouraged to take account of the needs of the local communities they serve and, where appropriate, to take account of the good practice developed in the EQUAL Community Initiative".

Conventionally, six strands of equality and diversity are now recognised:

- gender.
- age.
- ethnicity.
- disability.
- sexual orientation.
- religion/belief.

In the UK, there has been equalities legislation for more than 30 years which has progressively been extended and refined. The legislation primarily deals with fair treatment of individuals in the labour market and in accessing public services.

<b>TABLE 5.3: UK EQUALITIES LEGISLATIVE CONTEXT</b>	
Equality Strand	Legislation
Gender	The Sex Discrimination Act 1975 The Equal Pay Act 1970 Equal Pay Act (EPA) 1970 (Amendment) Regulations 2003
Age	Employment Equality (Age) Regulations 2006
Ethnicity	The Race Relations Act 1976 Race Relations Amendment Act (2000) The Race Relations Act 1976 (Amendment) Regulations 2003
Disabilities	The Disability Discrimination Act 1995
Sexual Orientation	Employment Equality (Sexual Orientation) Regulations 2003 Civil Partnership Act 2004
Religion and Belief	Employment Equality (Religion or Belief) Regulations 2003

The responsibility on the North East of England Regional Competitiveness and Employment Programme 2007-13 is to ensure that:

- the interests of different groups are represented in the administration of the Programme.
- the implementation of the Programme takes account of the existence of under-represented groups in its targeting.
- the Programme seeks to positively influence other economic actors (organisations, employers) to take action that will reinforce equality and diversity.

### **5.3.2 Equality and Diversity in the North East**

There is limited systematic data covering all equal opportunities target groups in the labour market in the North East. Table 5.4 summarises the key facts known.

<b>TABLE 5.4: EQUALITY STANDS IN THE NORTH EAST - KEY STATISTICS</b>		
Equality Strand	Socio-economic indicator	Statistical data
Gender	Population	Some 51.3% of the population in the North East was female. 48.6% was male. (ONS, 2004)
	Employment	In September 2005, women in the North East accounted for 48% of employees, men accounted for 52% of employees (Annual Business Inquiry).
	Self-employment	In 2001, 72.9% of the self-employed people in the North East were men and 27.1% were female (Labour Force Survey)
	Unemployment	In 2005-2006, the unemployment rate for males of working-age population was 7.2%. The rate for working-age females was 5.2% (Annual Population Survey, 2006)
	Earnings	In 2006, average earning for males was 89.0% of the England average. Average earning for females was 90.6% of the England average.
	Economic inactivity	In 2004-2005, economic inactivity rate for working-age females was 28.7%. The rate for working-age males was 21.9%.
Age	Population	In 2004, 80.6% of the population was below the pension age. 19.4% was at pension age and over.
	Employment	In 2005-2006, the employment rate for the working-age population was 70.5%. The rate for people aged 50 to retirement age was 62.8% (Annual Population Survey, 2006).
	Unemployment	In 2006, the break-down of claimant count unemployment was as follows 82.6% aged 18-49 (32.7% aged 18-24; 23.2% aged 25-34; and 26.7% aged 35-49) and 16.2% aged over 50.
	Economic inactivity	In 2004-2005, the economic inactivity rate for the working age population was 25.3%. For the group aged between 50 and the retirement age it was 37.9%. People between 50 and the retirement age constituted 38.4% of the total economically inactive working-age population.
Ethnicity	Population	In 2001, 97.6% of the population was white. 2.4 was non-white (2001 census data cited in ONS, Region in Figures, 2005)
	Unemployment	In 2004, the unemployment rate for the non-white population was 5.2% as opposed to 5.4% for the white population (ONS, Region in Figures, 2005). This figure (which compares with 9.1% in 2003) should be treated with caution due to small sample size.
Disabilities	Population	In 2002-2003, 26% of households were in receipt of Incapacity or Disablement Benefits. [This was in contrast to 16% in the UK (Family Resource Survey, Department for Work and Pensions, cited in ONS, Region in Figures, 2005)]
	Employment	In 2003, 24.8% of economically-active people with disabilities were in employment (Labour Force Survey).

	Unemployment	In 2004, the unemployment rate for the disabled working-age population was 8.6% versus 4.9% for all other people (ONS, Region in Figures, 2005).
Sexual Orientation	Population	HM Treasury (2005) estimates that 6% of the population is gay, lesbian or bisexual and that these groups represent between 1.5 and 2 million of the workforce.
	Employment	Research by Barclays Bank (2005) found that responding gay men had earnings 40% above average male earnings and responding lesbian women 34% above average female earnings.
	Earnings	Research by Barclays Bank (2005) found that responding gay men and lesbian women were highly represented in senior and middle management, and in professional occupations.

There is a very high rate of participation in the labour market by women and, indeed, in the late 1990s there were more women in employment than men. However, there remains significant labour market segregation by industry, by full-time and part-time employment, and by occupational grade.

Women account for a very significant proportion of new business starts, but research shows that they are less likely to make use of formal business finance or to access business support services.

The employment rate among the over-50s in the North East is markedly lower than for other age groups. While this to some extent reflects the process of industrial restructuring and the availability of early retirement packages in recent years, it is a matter for concern in the context of extended life-expectancy and low levels of pension provision.

Compared with other regions of England, the North East has a markedly lower ethnic minority population and, in particular, a smaller than average black population. The scale and diversity of the population is changing rapidly, however, with the recent influx of migrants from the New Member States of the European Union. Having a small but highly diverse ethnic minority population creates its own difficulties in engaging and effectively serving these groups.

Approximately a fifth of the working-age population is classified as disabled with a slightly smaller proportion identified as having a work-limiting disability. Only around a quarter of economically active people with disabilities are actually in employment. Research has shown a very high predisposition towards self-employment and enterprise among disabled groups.

There is no systematic information on the numbers and the labour market position of the gay, lesbian and bi-sexual population in the North East.

### **5.3.3 Relevance to the North East Regional Competitiveness and Employment ERDF Programme 2007-13**

The Programme can directly promote equal opportunities and diversity through positive action to secure the participation of people from under-represented groups in its decision-making and implementation structures.

Beyond this, the scope for integrating an equal opportunities and diversity dimension to the Competitiveness Programme in the North East is conditioned by the thematic focus of its Priorities.

<b>TABLE 5.5: EQUAL OPPORTUNITIES AND DIVERSITY CROSS-CUTTING THEME – SCOPE FOR INTEGRATION BY PRIORITY</b>	
<b>Priority</b>	<b>Main Scope for Integration</b>
Enhancing & Exploiting Innovation	<p>Ensuring that employment opportunities created as a result of investment in regional innovation infrastructures are offered in an inclusive fashion.</p> <p>Encouraging and supporting employers in adopting and applying diversity and family friendly policies.</p> <p>Ensuring wide accessibility, including targeting of hard-to-reach groups, where the Programme supports training and other HRD actions.</p>
Business Growth & Enterprise	<p>Ensuring that the promotion of enterprise and business development support is promoted as relevant to all sections of the community and takes account of language and cultural barriers to take-up.</p> <p>Engaging women, under-represented and excluded groups with enterprise.</p> <p>Engaging women under-represented and excluded groups with business finance.</p> <p>Encouraging and supporting employers in adopting and applying diversity and family friendly policies.</p> <p>Ensuring wide accessibility, including targeting of hard-to-reach groups, where the Programme supports training and other HRD actions.</p>

### 5.3.4 Monitoring and Evaluation

The integration of equal opportunities and diversity will be the subject of monitoring and thematic evaluation over the life of the Programme.

<b>TABLE 5.6: EQUAL OPPORTUNITIES AND DIVERSITY CROSS-CUTTING THEME - PERFORMANCE INDICATORS AND TARGETS</b>	
<b>Indicator</b>	<b>Target</b>
<b>Outputs</b>	
Number of new SMEs assisted (of which run by women or other under-represented groups)	6,080 (1,520)
Number of SMEs to improve their performance (of which assisted with the introduction of diversity and family friendly policies).	11,114 (556)
<b>Results</b>	
No. of gross jobs created - (i) men and (ii) women (iii) in disadvantaged areas	(i) 5,602 (ii) 4,583 (iii) 1,167
No. of gross jobs safeguarded - (i) men and (ii) women (iii) in disadvantaged areas	(i) 10,055 (ii) 8,226 (iii) 1,901
Number of businesses created (of which run by women or other under-represented groups)	3,006 (752)

## 5.4 Addressing Spatial Disparities in Economic Inclusion

### 5.4.1 General

The socio-economic analysis demonstrates that the region as a whole lags the England average on a wide range of economic indicators, including:

- enterprise.
- productivity.
- employment.
- joblessness.
- deprivation.

Economic progress in recent years has been uneven across the region with the result that intra-regional disparities have grown. Nevertheless, economic development in the North East remains a region-wide issue. Some of the greatest concentrations of joblessness and deprivation are to be found within the region's most buoyant labour market. This is reflected in the extensive coverage of the North East's centres of population by Article 87(3)c Assisted Area Status.

Structural Funds Programmes are intended as an intervention on the territory of the EU. Although there are no restrictions on spatial eligibility under the new ERDF Regulation, there is a clear expectation that Programmes will take account of spatial factors. This represents a challenge in a region such as the North East where economic and social deficits are both general and locally concentrated and where opportunity and scope for development is greater in larger urban areas than in smaller urban and rural areas.

### 5.4.2 Spatial Characteristics of the North East

The North East stretches for 100 miles north-south from Berwick-upon-Tweed to Darlington. At its greatest east-west dimension it is 80 miles from Saltburn on the east coast to the border with North West England (Cumbria). Around half of the region's area is classified by DCLG as sparsely populated, mainly in the rural north and upland west.

The coastal fringe is almost continuously urbanised from Newbiggin-by-the-Sea southwards to Saltburn-by-the-Sea and urbanisation extends significantly up the Tyne, Wear and Tees valleys. Out of a population 2.55m (2004), some 72% live in urban areas, primarily those along the Tyne, Wear and Tees valleys while some 88% work in urban areas.

There are important variations in economic and social conditions across the region.

<b>Enterprise</b>	<p>The density of the business stock in the North East, at 266 businesses per 10,000 population, was 68% of the England average in 2004. At sub-regional level there was variation from 65% of the England average in Tees Valley to 78% in Northumberland (ABI, Mid-year Population Estimates, NOMIS). In the same year, the rate of new VAT registrations in the North East was 53% of the England average, but ranged from 44% in Tees Valley to 67% in Northumberland. Disparities are more pronounced at a local level. (VAT Registrations/Deregistrations, Mid-year Population Estimates, NOMIS).</p> <p>The Local Futures Group State of the Nation Report 2006 identifies Castle Morpeth, Redcar and Cleveland and Teesdale as falling in the weakest 15 districts in Great Britain in terms of enterprise.</p>
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<b>Productivity</b>	<p>In 2004, GVA per head in the North East stood just below 80% of the UK average having stabilised in 1998 following a long decline. At a sub-regional level, in 2003, GVA per head was significantly lower than the North East average in South Teesside, Durham and Northumberland at 87, 84 and 85 respectively where the North East average = 100. GVA per head for Darlington and Tyneside were significantly above the North East average in 2003, at 118 and 117 where the North East average = 100 (NUTS3 GVA 1995-2003, ONS).</p> <p>The annual average rate of growth in GVA per head between 1995 and 2003 in the North East was significantly behind the England and the UK rates. Hartlepool and Stockton-on-Tees was the worst performing area in the North East in terms of GVA growth, with average annual growth of just 2.1%. The whole of Tees Valley and Durham, plus Northumberland performed at below the regional average of 4.5%. Tyneside and Sunderland on the other hand led growth in GVA per head, with higher rates of growth (6.0% and 5.5% respectively) than the regional, England and UK averages (NUTS3 GVA 1995-2003, ONS).</p>
<b>Unemployment</b>	<p>Despite a steep decline in recent years, the North East continues to have a higher than average level of unemployment. For 2004-05 the regional rate was 6.1% compared with 4.7% at the England level. In 2004-05, all of the North East sub-regions had unemployment rates higher than England average ranging from 5.8% in County Durham to 6.6% in Tees Valley.</p> <p>Between 1999/2000 and 2004/2005, Tees Valley and Tyne and Wear experienced decreases in unemployment rate of around 4 percentage points, whereas County Durham and Northumberland respectively experienced a decrease and an increase of around 0.5 percentage points. (Labour Force Survey: Quarter Year Averages; Nomis, 2006).</p>
<b>Inactivity</b>	<p>In 2004-05, the economic inactivity rate in the North East was 25.3% compared with 21.2% at the England level. However, while the rate for England had increased by 5.8 percentage points since 1999-2000, the rate for the North East had fallen by 3.5 percentage points in the same period.</p> <p>In 2004-05, the economic inactivity rate for the four sub-regions was similar, ranging from 23.4% in Northumberland to 26.3% in County Durham. However, the trend data at sub-regional level are striking. Between 1999-2000 and 2004-05, Northumberland and Tyne and Wear experienced modest reductions close to the regional trend. In the same period, inactivity in Tees Valley fell by 14.2 percentage points but increased by 14.3 percentage points in County Durham (Labour Force Survey – Four Quarter Averages, Nomis).</p> <p>When unemployment and inactivity are added together and their local concentration is taken into account, it becomes clear how in the worst affected communities, there are often a large number of workless households in close proximity. In spring 2005, the estimated proportion of workless households in the North East was 22.6%, compared with the UK estimated proportion of 16.6% (NERIP, State of the Region 2006).</p>
<b>Deprivation</b>	<p>While for people who are in employment the North East offers a good standard of living, despite economic progress in recent years, it continues to have more extensive deprivation than the other English regions with 37.8% of the regional population living in</p>



	<p>England's most deprived 20% of SOAs.                  At sub-regional level, deprivation is notably high in Middlesbrough and Hartlepool within Tees Valley, within the former coalfield area in East County Durham, notably Easington, and throughout Tyne and Wear although it is lower in North Tyneside. On average, Northumberland fares better, but there are still local areas with high levels of deprivation, such as Blyth.</p>
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It is important to note that in rural areas, where social groups are less segregated, affluence and deprivation co-exist and deprivation tends to be less visible than in urban areas.

### 5.4.3 Relevance to the North East Regional Competitiveness and Employment ERDF Programme 2007-13

The summary analysis above shows that while there are spatial variations in social and economic conditions, much of the region is subject to deficits with the England average in some dimensions. These overall and localised deficits are addressed in different ways through the various Priorities and Themes of the Regional Economic Strategy. Some Themes, such as Physical Regeneration and Economic Inclusion address localised conditions more directly than others. However, it is a core principle of the RES and the Regional Competitiveness and Employment Programme that account should be taken of the scope for regional priorities to contribute to sustainable local development.

The role of urban areas is already central to the RES. Some 85% of jobs are located in the two City Regions of Tyne and Wear and Tees Valley. The RES recognises that the greatest impact can be achieved through concentration of investment in the City Regions and that this will facilitate the transition to a more knowledge-based economy. Nevertheless, although 70% of North East residents live in urban areas, the pattern of disadvantage in the region only coincides in part with the City Regions. Most of the region's area is rural and is experiencing significant structural change; some of the North East's most disadvantaged citizens live in smaller settlements in former coalfield areas. A specific urban focus would not address these groups.

The Place Agenda within the Regional Economic Strategy, and which covers both urban and rural areas, is already heavily resourced and primarily delivered through vertical area regeneration actions. The Competitiveness Programme will complement this approach by embedding the Lisbon Agenda within area regeneration. The operational Priorities directly address the Lisbon Agenda for growth and jobs. Progress under these Priorities will enable the economy to absorb more people who are presently jobless. However, these Priorities have also been designed to contribute to both urban and rural regeneration by integrating awareness of regional spatial development objectives within Priorities that are primarily focused on the Lisbon Agenda.

<b>TABLE 5.7: Addressing Spatial Disparities in Economic Inclusion CROSS-CUTTING THEME – SCOPE FOR INTEGRATION BY PRIORITY</b>	
<b>Priority</b>	<b>Main Scope for Integration</b>
Enhancing & Exploiting Innovation	Innovation Connectors will create employment, including entry-level jobs in local labour markets, including those in disadvantaged urban and rural areas. Accompanying actions will ensure access for residents of disadvantaged communities to relevant training and employment opportunities created in the construction and operational phases of Innovation Connectors. Innovation Connectors will form a focus for physical regeneration and environmental renewal, including in disadvantaged urban and rural areas. Revenue actions will engage communities with science and innovation and will address low aspirations.
Business Growth & Enterprise	Investment to create the "enterprise surge", proposed under the RES Action Plan will include: stimulating greater interest in starting businesses among young people and communities where there is limited enterprise culture. provision of intensive and innovative support - mentoring, advice, financial - for prospective and new entrepreneurs (including social enterprises) in housing renewal areas, LEGL areas and other locations that have proved relatively impervious to mainstream approaches. support for the development of local supply chains to the Innovation Connector projects taken forward under Priority 1.

In addition, implementation of the Programme will take account of spatial disparities through a combination of:

- a commissioning approach to underpin spatial objectives, including where this will help steer developments towards disadvantaged areas.
- providing an incentive for the dispersal of relevant development, for example, through the modulation of intervention rates to take account of spatial differences in market failure.

#### **5.4.4 Monitoring and Evaluation**

Spatial cohesion will be the subject of monitoring and thematic evaluation over the life of the Programme. Thematic evaluation will be particularly important given the expected use of pilot and innovative approaches in this area.

The spatial performance of enterprise and employment creation is reflected in the Global and Specific Objectives of the Programme and will be included in routine monitoring.

<b>TABLE 5.8: ADDRESSING SPATIAL DISPARITIES IN ECONOMIC INCLUSION CROSS-CUTTING THEME - PERFORMANCE INDICATORS AND TARGETS</b>	
<b>Indicator</b>	<b>Target</b>
<b><i>Outputs</i></b>	
No. of new and existing businesses assisted that are social enterprises	258
<b><i>Results</i></b>	
No. of gross jobs created (iii) in disadvantaged areas	1,167
No. of gross jobs safeguarded (iii) in disadvantaged areas	1,901
No. of businesses created or attracted to the region (i) in disadvantaged areas	451

## **6 CO-ORDINATION BETWEEN FUNDS**

### **6.1 Introduction**

ERDF is one of two European Structural and Cohesion Funds that the North East is able to utilise, the second being the European Social Fund (ESF).

Resources from the European Agricultural Fund for Rural Development (EAFRD) and European Fisheries Fund (EFF) will also be available within the region.

In addition, the region is able to draw on European Investment Bank (EIB) funding in terms of large scale Urban Development Funds and potentially via the JESSICA mechanism within the context of the ERDF OP 2007-2013. The regional partnership aims to maintain the option of utilising the JESSICA mechanism and will seek to ensure that any large scale EIB investment in Urban areas within the region is complementary to ERDF in the period 2007-2013.

It is an EU regulatory requirement (Article 9 General Regulation 1083/2006) that there should be complementarity and consistency between interventions financed by these funding streams. The Operational Programme must set clear demarcation criteria in order to avoid overlap and duplication of eligible activities. This demarcation is typically in relation to the types of investments and actions. However, there may also be a spatial element, most notably between ERDF and EAFRD/EFF, each of which can potentially support the same types of activities in rural and coastal areas.

The Operational Programme must therefore demonstrate which activities will be funded by ERDF and which activities will be funded by other funds, and how the Programmes will be complementary.

### **6.2 European Social Fund**

This ERDF Competitiveness and Employment Programme for the North East will be complemented by a separate English programme for Skills and Employment (funded through ESF) co-ordinated by DWP, with funding (and a degree of regional prioritisation) devolved to the regions. The primary purpose of ESF interventions is to tackle issues related to worklessness and economic inactivity, and to boost the skills of the existing workforce. ESF is the main EU source of financial support for efforts to develop employability and human resources. The vast majority of UK ESF funding will be administered and spent through co-financing arrangements with (predominantly) the LSC and JobCentre Plus.

The ESF programme priorities for spend will focus on addressing worklessness through the activities of JobCentre Plus and on supporting the Government's Skills for Life strategy, which focuses on basic skills (ie up to NVQ Level 2). There will be some regional flexibility for supporting technical and professional skills training at higher levels, especially within small firms.

A regional ESF Framework has been developed (July 2007) which identifies specific regional priorities, within the parameters of a national Programme where activity in all 9 English regions must ultimately balance at Programme level. The Framework acknowledges that up to 10% of the ERDF Operational Programme resources may be used to support "ESF-type" activities within ERDF projects.

Co-ordination and complementarity between ERDF and ESF will be achieved by regular dialogue between Programme managers and the chairs of the region's ERDF PMC and ESF Committee. A pre-condition of committing ERDF resources for ESF type activities will be that the chair of the ESF Committee and the ESF Programme Manager in Government Office

North East must confirm that support is not available from the ESF Programme. In addition the ESF Committee will receive reports on the use of ERDF resources for ESF type activities and a summary of activity will be included in ERDF Annual Implementation Reports..

### **6.3 European Agricultural Fund for Rural Development (EAFRD)**

Under the 2007-13 round of European Funding, the current European Agricultural Guidance and Guarantee Fund (EAGGF) will become part of mainstream national activity under the Common Agricultural Policy. EAGGF will be replaced by the European Agricultural Fund for Rural Development (EAFRD). It will be available through the new Rural Development Fund for England (RDPE), managed by Defra and delivered by One NorthEast, Natural England and Forestry Commission.

The RDPE contains 3 axes, and each region must produce its own Regional Implementation Plan (RIP):

- Axis 1: Making agriculture more competitive and sustainable
  - Training for farming and forestry businesses to exploit the biomass sector; encouraging the development of new markets and new added value products such as renewable energy products
- Axis 2: Enhancing the environment and countryside
  - Restoring and creating locally distinctive landscapes, for example in the urban fringe, conserving the condition of historic and archaeological features, landscapes and structures; supporting and enhancing environmental and recreational benefits from existing forests and woodlands
- Axis 3: Enhancing opportunity in rural areas
  - Micro-enterprise start-ups, and growth of existing micro-enterprises, through investment, innovation and diversification; improved skills in the rural workforce; innovative and sustainable enhancement of rural heritage assets that add value to the rural economy; provision of basic services

The whole of the North East is eligible for support under the ERDF and RDPE Programmes. It is not appropriate to assume that rural needs can be addressed solely through the RDPE Programme: the ERDF Programme will provide a high level of support for enterprise, business development and innovation throughout the region but the RDPE RIP will delineate specific activities that will benefit the region's rural areas. The clearest potential for overlap between ERDF and EAFRD is Axis 3, given its emphasis on rural enterprise. The clearest form of demarcation is in terms of the end beneficiary, with support for agricultural and forestry businesses being provided by EAFRD.

However, this Operational Programme and the rural Regional Implementation Plan (RIP) are being developed along roughly similar timescales and, in the absence of either being finalised, the precise detail of demarcation is not yet established.

The NSRF states that in general, EAFRD should be focused on supporting diversification of rural economies at the local level, including support for diversification by farmers into non-agricultural activities (ie leisure/tourism), stimulating enterprise and supporting existing micro-businesses, and improving skills and employment opportunities for low-paid rural workers. The demarcation proposed in the NSRF will need to be supported by a robust definition of 'rural' areas and 'local' markets and need.

Since ERDF will not support agricultural and forestry activities any potential for overlap with Axis 1 and Axis 2 (as support under Axis 2 is also likely to be targeted on farmers and forestry activity) is minimal, as shown in the table at the end of this section.

To further ensure that duplicate funding between ERDF and RDPE funding is avoided systems will be established that will require close collaboration between RDA rural and European teams, programme managers and project developers at project initiation, pipeline and implementation stages. Should any duplication occur remedial action, including the notification of an irregularity, will be taken. Further collaboration in terms of sharing of information and activity will occur at the level of ERDF and RDPE Management Committees.

#### **6.4 European Fisheries Fund**

The current Financial Instrument for Fisheries Guidance (FIFG) will become part of mainstream national activity under the Common Fisheries Policy, and is to be replaced by the European Fisheries Fund (EFF).

EFF seeks to promote a UK fishing sector that is sustainable and profitable in the long term, thereby supporting coastal communities dependent on the fishing industry and promoting social inclusion where this support cannot be provided elsewhere. The fund can be used to promote investment in innovation and technology, environmental best practice, developing efficient supply chains and in port infrastructure and operations.

The EFF has yet to be finalised, but it is expected to contain the following four priorities:

- Adaptation of the fishing fleet
- Investment in aquaculture
- Measures of common interest
- Sustainable development of coastal areas

As yet, the EFF's budget has not been decided and Defra is still considering how to deliver EFF in England. Consideration will be given for representation of the rural development and fisheries fund programmes within the ERDF governance infrastructure. Demarcation between ERDF and EFF is shown in the table at the end of this section.

#### **6.5 EU RTD Programmes**

As detailed in sections 2 and 4, the ERDF Competitiveness OP focused heavily upon the need to strengthen the region's research base both in terms of current research activity and overall research capacity within the region.

In recent years the region has also utilised ERDF 2000-2006 to strengthen the research base and its supporting institutional architecture, through for example the Centres of Excellence and the Strategy for Success, as well as to provide an FP6 Regional Support Package aimed at raising the participation and the region's take of EU RTD funds. The regional package supported regional SMEs, Universities and Centres of Excellence to participate in FP6.

The two Priority approach embodied in the 2007-2013 OP demonstrates the importance that the region attaches to research and innovation, and given the focus of Priority 1 with its emphasis on the enhancement and exploitation of innovation, it is anticipated that this will enable a more developed coordination and integration between how the region utilises both ERDF and a range of transnational programmes as an overall package of strategic opportunity.

For example, the Fields of Action included within the OP such as investment in innovation connectors, support for innovation and technology led sectors and the exploitation of the

science base all have clear resonance to the opportunities available under FP7, the Competitiveness and Innovation Programme (CIP) as well as the innovation strands of the new transnational programmes. Furthermore, the three Pillar approach embodied within the region's Strategy for Success clearly reflects many of the FP7 thematic priorities under the 'cooperation' strand, including nanotechnology, energy and the environment.

In addition, regional partners intend to exploit the complementarities between ERDF and FP7 through the 'capacities' strand of FP7 that aims to develop new ways of maximising the research potential in European regions through activities based on scientific excellence in coordination with EU policy. One NorthEast's own current involvement in the Region's of Knowledge Programme positions the region well to add further value to our ERDF OP.

On a practical level, the region recently had approved a bid under the Enterprise and Innovation Programme call of the CIP to establish a single regional level network (including the business and innovation services of the RDA together with the European Information Centre and the Innovation Relay Centre) to advise on RTD opportunities. It is anticipated that this network will work closely with the PMC over the lifetime of the ERDF OP. In addition, One NorthEast will deliver a further Regional Support Package that will provide FP7 support to:

- Raise awareness among SMEs of FP7 opportunities
- Help SMEs to identify their R&D needs and relevant partners
- Assist SMEs in the preparation and coordination of project proposals for participation in FP7.

**Demarcation NE ERDF / EAFRD / EFF**

*Note: demarcation with EFF:*

The EFF national plan, associated axes and activities at regional level have not yet been approved (November 2007). Once approved, demarcation between EFF, EAFRD and ERDF will be added to this Programme document through the formal modification and notification procedure under Regulation 1083/2006.

<b>Axis 1</b>	<b>EAFRD</b>	<b>ERDF</b>
Cooperation for the development of new products, processes and technologies in the agriculture, food and forestry sectors	Support collaboration and new product development costs from <u>land based SMEs (principally farming, food, forestry)</u> bringing together primary producers, processors and other third parties. Limit max level of investment.	ERDF support for innovation and exploitation of the science base will focus upon SMEs in key sectors: <ul style="list-style-type: none"> <li>• Energy and the environment</li> <li>• Process industries</li> <li>• Healthcare and health sciences</li> </ul>
<b>Axis 3 Quality of life in rural areas and diversification of the rural economy</b>	<b>EAFRD</b>	<b>ERDF</b>
Diversification into non-agricultural activities	Support for farm household members only setting up high impact, high quality added value (non-agric) enterprises providing local employment	Beneficiaries under this measure to be excluded from ERDF support.
Support for business creation and development	Support the creation and development of (non-farm/forest) <u>micro-enterprises and sole traders</u> , including, enterprise animation, business support and incubator activities to be targeted at specific sectors within this measure (e.g. food, bio-energy, rural knowledge based business)	ERDF will support generic SME business support in urban and rural areas. Enterprise development in disadvantaged rural areas will focus upon SMEs in non-Leader areas.
Encouragement of tourism activities	Support for small scale infrastructure and services related to rural <u>and farm-based tourism / hospitality</u> . Activity supported will reflect regional tourism strategy and priorities.	ERDF will focus upon tailored business support and access to finance for SMEs in the regional tourism and hospitality sector. It will exclude businesses which specialise in farm-based tourism and hospitality activities.
Basic Services for the economy and	<u>In rural areas only</u> . Support for village or groups of	ERDF revenue for community awareness and engagement



rural population	villages and related small-scale infrastructure. Activities will include social enterprise, culture and leisure and innovative service delivery.	actions will relate to science and innovation and be directly linked to the Innovation Connectors identified in ERDF OP Priority 1, and in respect of enterprise activities in P2, support will be provided for the development of social enterprise in disadvantaged areas, in particular in non-Leader areas.
Training and information for economic measure for economic actors operating in the fields covered by Axis 3.	Training support for economic actors (including farmers who are diversifying) <u>in rural areas</u> covering activities such as ICT skills, traditional rural skills for young people and management training.	ERDF will focus Article 34 (ESF type) activity upon targeted provision of higher level skills training and knowledge transfer activity in SMEs related to Innovation Connectors under priority 1 and resource efficiency / waste minimisation / environmental management in SMEs in targeted sectors under priority 2 which is integral to the success of a wider ERDF project. Skills will not be supported unless embedded within a broader ERDF project.

During the 2007-2013 funding period, delivery of the rural development and ERDF funds in the North East will be closely aligned through the Regional Development Agency, One NorthEast and through the collaboration of regional partners in the development of the NEIP and NE Competitiveness OP. In the North East the day to day management of the ERDF Competitiveness Programme and Axis 1 and 3 of the European Agricultural Fund for Rural Development (EAFRD) will be delivered via One NorthEast. Each fund will be overseen by its own secretariat and both will operate under the Agency's Programme and Process Handling Framework which will bring added coherence.

Each Programme has been developed within the policy framework established by the agreed North East Regional Economic Strategy. This will bring increased complementarity, ensuring a greater contribution by both instruments to shared regional objectives. The teams developing the two programmes have worked together to ensure synergy and reduce the risk of duplication between the two funds. Similar coordination methods will operate during the delivery of the programme in order to avoid double funding. Further collaboration in terms of sharing of information and activity will occur at the level of ERDF and RDPE Management Committees, e.g. a representative of the RDPE Secretariat will be invited to attend the ERDF PMC and similarly, a representative from ERDF secretariat will attend RDPE Programme Group.

To further ensure that duplicate funding between ERDF and RDPE funding is

avoided systems will be established that will require close collaboration between RDA rural and European teams, programme managers and project developers at project initiation, pipeline and implementation stages. Should any duplication occur remedial action, including the notification of an irregularity, will be taken.

The RDPE programme under Axis 1 is restricted in its scope to fund largely land based industries, principally, farming and forestry, which are outside the scope of the North East ERDF OP. However, as part of the region's ongoing commitment to modulation and the importance of the LEADER based approach to development Axis 3 will support more broadly based socio-economic development in rural areas. The table above describes the demarcation and respective focus of EAFRD against ERDF as agreed between regional partners. The parameters set out above will be managed on a day to day basis by the Agency's European and Rural Secretariats.

## **7 IMPLEMENTING PROVISIONS**

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## **7.1 REGULATORY CONTEXT**

In accordance with the requirements of Article 37(1)(g) of Council Regulation (EC) No 1083/06 of 11 July 2006, this chapter sets out the implementation provisions for the North East of England European Regional Development Fund Regional Competitiveness and Employment Operational Programme (“the OP”).

These have been developed taking into account the requirements of Council Regulation (EC) No 1083/06, which lays down general provisions about the Structural Funds; Council Regulation (EC) No 1080/06, which lays down specific provisions about the types of activity that may be financed by the European Regional Development Fund; and Commission Regulation (EC) No 1828/2006, which sets out rules for the implementation of the Council Regulations.

The implementing provisions will be subject to revision where necessary to reflect any subsequent regulations adopted by the Council or the Commission concerning the ERDF. All articles quoted in the text are those of Council Regulation (EC) No. 1083/06, except where otherwise stated. In the event that the implementing provisions are found on any point to be inconsistent with any provision of the Structural Funds Regulations, the meaning or effect of the Regulations shall prevail.

## **7.2 MANAGING AUTHORITY, CERTIFYING AUTHORITY, AUDIT AUTHORITY, AND INTERMEDIATE BODIES**

### **Managing Authority: Role and Functions**

A system of management and control of the implementation of the OP will be set up in accordance with Article 58.

The Managing Authority (MA), whose functions are set out in Article 60, is responsible for managing and implementing the OP in accordance with the principle of sound financial management and the requirements of the Structural Funds Regulations.

The MA for the OP is the Secretary of State for Communities and Local Government (SSCLG). The address is Eland House, Bressenden Place, London SW1E 5DU, England, United Kingdom. The functions of the MA not entrusted to an intermediate body will be carried out by officials of the Department of State headed by SSCLG (the Department for Communities and Local Government) who administer European policy and programmes, presently entitled European Policy and Programmes Division, under the responsibility of SSCLG.

### **A 59(2) Intermediate Body: Roles and Functions**

Article 59(2) authorises the Member State to designate one or more intermediate bodies to carry out some or all of the tasks of the managing or certifying authority under the responsibility of that authority. The Secretary of State, for the UK Government, proposes to designate a single intermediate body (hereafter referred to as the A 59(2) body) for the OP. The A 59(2) body is One NorthEast, which is a regional development agency established and regulated by the Regional Development Agencies Act 1998. ]

The tasks of the MA to be entrusted to the A 59(2) body are, subject to the reservation of specified functions for performance by the MA (as set out on page 7), all of the functions specified in Article 60, namely:

- (a) ensuring that operations are selected for funding in accordance with the criteria applicable to the OP and that they comply with applicable Community and national rules for the whole of their implementation period;
- (b) verifying that the co-financed products and services are delivered and that the expenditure declared by the beneficiaries for operations has actually been incurred and complies with Community and national rules; verifications on-the-spot of individual operations may be carried out on a sample basis in accordance with the detailed rules to be adopted by the Commission in accordance with the procedure referred to in Article 103(3);
- (c) ensuring that there is a system for recording and storing in computerised form accounting records for each operation under the OP and that the data on implementation necessary for financial management, monitoring, verifications, audits and evaluation are collected;
- (d) ensuring that beneficiaries and other bodies involved in the implementation of operations maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation without prejudice to national accounting rules;
- (e) ensuring that the evaluations of OPs referred to in Article 48(3) are carried out in accordance with Article 47;
- (f) setting up procedures to ensure that all documents regarding expenditure and audits required to ensure an adequate audit trail are held in accordance with the requirements of Article 90;
- (g) ensuring that the certifying authority receives all necessary information on the procedures and verifications carried out in relation to expenditure for the purpose of certification;
- (h) guiding the work of the monitoring committee and providing it with the documents required to permit the quality of the implementation of the OP to be monitored in the light of its specific goals
- (i) drawing up and, after approval by the monitoring committee, submitting to the Commission the annual and final reports on implementation;
- (j) ensuring compliance with the information and publicity requirements laid down in Article 69;

- (k) providing the Commission with information to allow it to appraise major projects.

The A 59(2) body will be responsible for providing a secretariat function to make administrative arrangements for the performance of the MA tasks and to assist the PMC. The A 59(2) body will carry out MA tasks in accordance with the management and control system established under Article 58 and guidance and directions issued by the MA. The MA will provide suitable training to the A 59(2) body. The A 59(2) body will also be responsible for ensuring that revenue generating projects are supported in accordance with Art 55.

Concerns about the performance of functions by the A 59(2) body, whether relating to the standard of performance or other matters, may be addressed in various ways. The MA will be empowered to issue directions relating to the exercise of the MA functions. Directions may require functions to be exercised in a specified manner or place restrictions on the way in which they are carried out.

The Secretary of State, for the UK Government, may withdraw the A 59(2) body's designation as an intermediate body, taking back full responsibility for the performance of MA tasks, or may vary the allocation of tasks (taking back or changing the scope of specified tasks). The Secretary of State may entrust tasks to a different body designated under Article 59(2). The Secretary of State will consult the A 59(2) body before deciding to take such steps and will inform the Commission of the action that has been taken.

The UK Government will ensure that the system of management and control and all other management and control documents, which govern the relationship between the MA and the A 59(2) body, are amended as appropriate to reflect any changes to the role of the A 59(2) body and that the Commission is notified of the amendments.

The MA will consult the A 59(2) body before issuing directions and guidance on matters relating to the performance of intermediate body functions.

The MA tasks not entrusted to the A 59(2) body (reserved by the Member State for performance by the MA) are tasks that can only be carried out by a national authority or on an inter-regional (England only) basis, particularly because they involve the coordination of matters requiring uniform practice for OPs or communication at national level with the Commission.

The reserved tasks include:

- i. providing guidance and instruction, as appropriate, on the interpretation of the rules and criteria contained in the Structural Funds Regulations and in documents issued by the Commission over the programming period in relation to the ERDF;
- ii. providing the contractual terms on which ERDF support is to be given, including, where relevant, state aid advice;
- iii. determining and issuing national eligibility rules;
- iv. providing guidance and instruction, as appropriate, on the management and control framework, accountancy rules to be followed by grant beneficiaries

and others involved in with the implementation of operations, systems to be used for the maintenance of accounts and the other records, information and publicity requirements, including monitoring, and any other matters relating to the management and of the OP as necessary;

- v. establishing written standards and procedures for verifications undertaken by the A 59(2) body in compliance with Article 13.2 of Commission Regulation 1828/2006, and ensuring that the A 59(2) body keeps records for each verification, stating the work performed, the date and the results of the verification, and the measures taken in respect of the irregularities detected thereby, and obtaining assurance that the monitoring and verification activities are adequately carried out in accordance with that Regulation;
- vi. prescribing the information to be provided to the Certifying Authority in relation to expenditure verification and verification procedures, the form in which this information is to be provided and how frequently it is to be provided;
- vii. appointing the Chair of the Programme Monitoring Committee (PMC) and being a member of the PMC;
- viii. receiving evaluations, annual and final implementation reports and submitting them to the Commission;
- ix. assisting as necessary with policy and technical support for the appraisal of major projects and the notification required for appraisal by the Commission;
- x. laying down and operating a mechanism for the payment of ERDF resources;
- xi. ensuring that where, in the exercise of functions entrusted to it as an intermediate body, the A59(2) body has awarded grant for one of its own projects, resulting in the RDA becoming the final beneficiary, ensuring that the A59(2) body takes such steps to cease, suspend, reduce or recover ERDF funding as it would be expected to take if the grant beneficiary were a separate third party.

A description of the systems covering in particular the organisation and procedures of the MA, Certifying Authority and the A 59(2) body as well as the Audit Authority will be submitted in accordance with Article 71 using Annex XII to Commission Regulation 1828/2006.

### **A 59(2) Intermediate Body: Organisation**

The A 59(2) body will make its own administrative arrangements for the performance of the MA tasks, taking account of guidance issued by the MA. The principle of separation of functions will be adhered to in accordance with Article 58(b). In managing the OP, the A 59(2) body will be required to have due regard to potential conflicts of interest and a procedure for ensuring that they are avoided. The procedure will be detailed in the management and control system which will be submitted to the Commission in accordance with Article 71 of Council Regulation 1083/2006 and Article 21 of Commission Regulation 1828/2006 using the model template set out in Annex XII to Commission Regulation 1828/2006.



The A 59(2) Body may exercise the functions entrusted to it by awarding funding to itself, as final beneficiary. The principle of separation of functions, in accordance with Article 58, will be adhered at each stage of the procedure as in the case of any other applicant for funding.

### **Certifying Authority: Role and Functions**

The Certifying Authority (CA) for the OP is the Secretary of State for Communities and Local Government. The address is Eland House, Bressenden Place, London SW1E 5DU, England, United Kingdom. The functions of the CA will be carried out by officials of the Department of State headed by SSCLG (the Department for Communities and Local Government), who work in the Department's Finance Directorate. These administrative arrangements for the performance of the CA tasks will ensure that the principle of separation of functions is adhered to in accordance with Article 58(b).

The CA is responsible for certifying the accuracy of statements of expenditure and applications for payment presented to the Commission in accordance with the procedures set out in Article 78. The specific tasks of the CA are as follows:

- a) drawing up and submitting to the Commission certified statements of expenditure and applications for payment;
- b) certifying that:
  - i) the statement of expenditure is accurate, results from reliable accounting systems and is based on verifiable supporting documents;
  - ii) the expenditure declared complies with applicable Community and national rules and has been incurred in respect of operations selected for funding in accordance with the criteria applicable to the OP and complying with Community and National rules;
- c) ensuring for the purposes of certification that it has received adequate information from the MA on the procedures and verifications carried in relation to expenditure included in statements of expenditure;
- d) taking account for certification purposes of the results of all audits carried out by or under the responsibility of the Audit Authority;
- e) maintaining accounting records in computerised form of expenditure declared to the Commission;
- f) keeping an account of amounts recoverable and of amounts withdrawn following cancellation of all or part of the contribution for an operation. Amounts recovered will be repaid to the general budget of the EU, prior to closure of the OP by deducting them from the next statement of expenditure.

### **Audit Authority: Roles and Functions**

The Audit Authority (AA) for the OP is the Secretary of State for Communities and Local Government. The address is Eland House, Bressenden Place, London SW1E

5DU, England, United Kingdom. The functions of the AA will be carried out by officials of the Department of State headed by SSCLG (the Department for Communities and Local Government) who audit the public expenditure of the Department under the responsibility of SSCLG and who work in a separate unit within the Department's finance directorate from those performing CA tasks. The functional independence of the audit services will ensure that the principle of separation of functions is adhered to in accordance with Article 58(b).

The AA is responsible for verifying the effective functioning of the management and control system. The specific tasks of the AA are as follows:

- a) ensuring that audits are carried out to verify the effective functioning of the management and control system of the OP;
- b) ensuring audits are carried out on operations on the basis of an appropriate sample to verify expenditure declared;
- c) presenting to the Commission within 9 months of the approval of the OP an audit strategy covering the bodies who will perform the audits referred to under points a) and b), the method to be used, the sampling method for audits on operations and the indicative planning of audits to ensure that the main bodies are audited and that audits are spread evenly throughout the programming period; [note: where a common system applies to several OPs, a single audit strategy may be submitted];
- d) by 31 December each year from 2008 to 2015:
  - i) submitting to the Commission an annual control report setting out the findings of audits carried out during the previous 12 month period ending on 30 June of the year concerned in accordance with the audit strategy of the OP and reporting any shortcomings found in the systems for management and control of the programme. The first report to be submitted by 31 December 2008 will cover the period from 1 January 2007 to 30 June 2008. The information concerning the audits carried out after 1 July 2015 will be included in the final control report supporting the closure declaration referred to in point (e);
  - ii) issuing an opinion, on the basis of the controls and audits that have been carried out under its responsibility, as to whether the management and control system functions effectively, so as to provide a reasonable assurance that statements of expenditure presented to the Commission are correct and as a consequence reasonable assurances that the underlying transactions are legal and regular.
  - iii) submitting, where applicable under Article 88, a declaration for partial closure assessing the legality and regularity of the expenditure concerned;

[ Note: when a common system applies to several OPs, the information referred to in point (i) may be grouped in a single report, and the opinion

and declaration issued under points (ii) and (iii) may cover all the OPs concerned ];

- e) submitting to the Commission at the latest by 31 March 2017 a closure declaration assessing the validity of the application for payment of the final balance and the legality and regularity of the underlying transactions covered by the final statement of expenditure, which will be supported by a final control report.

Where audits and controls are carried out by a body other than the AA, the AA will ensure that such bodies have the necessary functional independence from the Article 59(2) body. The AA may choose to employ private sector auditors to carry out system and operation audits under its responsibility.

### **Management and Control: description of systems**

The AA will be responsible for drawing up the report and the opinion referred to in Article 71(2), describing and assessing the management and control systems and giving an opinion on their compliance with Article 58 to 62.

## **7.3. PARTNERSHIP AND COMMITTEE STRUCTURE**

### **General**

The OP has been developed and will be implemented in accordance with the principles of partnership set out in Article 11 and national rules and practice. The partnership principle will be operated throughout the lifetime of the OP.

The Secretary of State, for the UK Government, has organised a partnership to cover the preparation of the OP with a wide variety of national, regional and local authorities and bodies, which are competent to contribute towards the aims, objectives and contents of the OP. Competent authorities and bodies include:

- (a) regional, local, urban and other public authorities;
- (b) economic and social partners;
- (c) any other suitable bodies representing civil society, environmental partners, non-governmental organisations;
- (d) bodies responsible for promoting equality between men and women.

### **Programme Monitoring Committee (PMC)**

In accordance with Article 63, the Member State will set up a PMC within three months from the date of the notification to the Member State of the Commission decision approving the OP. The membership and role of the PMC will reflect the strategic nature of the prescribed tasks of the PMC set out in Article 65.

Reflecting the principle of partnership, the membership of the PMC will be drawn from representatives of the bodies of the regional partnership organised under Article 11. It will, therefore, reflect national, regional, local and sectoral interests in the OP, and will aim to be balanced in terms of gender. On its own initiative, or at the request of the PMC, the Commission may participate in an advisory capacity. Where the European Investment Bank or the European Investment Fund are contributing to the OP, they may be represented in an advisory capacity.

The MA will have a representative as a member of the PMC. A particular role of the MA representative will be to advise and guide the PMC on compliance with the regulatory requirements in delivering the OP and on any other aspects of implementing the programme.

The MA representative will also have a role in informing the PMC about relevant Government Policy and in reporting to Ministers as appropriate on how the strategy, priorities and activities of the OP are contributing to wider Government policies.

The chairperson of the PMC will be the Regional Director of the Government Office for the North East.

The Chair will approve all PMC minutes and papers before they are distributed to the PMC members for agreement.

### **Duties of the Programme Monitoring Committee**

The PMC will draw up and agree its own Rules of Procedure. These procedures will be publicised and made available on the programme website. The MA will issue guidance to Article 59(2) bodies on governance issues, including drawing up rules of procedure. The MA representative, as a member of the PMC, will have a role in ensuring that the rules of procedure are robust, are designed to ensure delivery and contain all appropriate checks and balances.

At its first meeting the PMC will approve detailed provision for the proper and efficient discharge of the duties assigned to it, including, the frequency of its meetings and procedures to deal with conflicts of interest. This will be contained within the PMC's Rules of Procedure. The PMC will satisfy itself as to the effectiveness and the quality of the implementation of the OP. To this end the PMC will carry out the tasks set out in Article 65.

The MA will approve the rules of procedure in accordance with Article 63(2).

### **Sub-committees and working groups of the PMC**

Reflecting its agreed terms of reference and rules of procedure, the PMC may at any time set up such sub-committees or working groups or other groups as it thinks appropriate to enable it to fulfil its responsibilities (e.g. geographically, sectorally or thematically based). The PMC may delegate any of its tasks to a sub-committee or working group. The membership of sub-committees and groups will be agreed by the PMC, reflecting the partnership principle set out in Article 11. The terms of reference and rules of regional sub-committees and groups will be approved by the PMC in accordance with Article 63(2). The use of sub-committees does not absolve the PMC from its responsibility for the proper performance of its tasks as set out in Article 65.

## **7.4. MANAGEMENT AND CONTROL SYSTEM**

The Secretary of State, for the UK Government, will establish management and control arrangements for the OP in accordance with Article 58.

This will ensure that Community funds are used efficiently and correctly and that assistance is managed in accordance with all applicable Community rules and in accordance with the principles of sound financial management. The detailed requirements set out in the Structural Funds Regulations will be observed throughout the period of the OP. The Secretary of State will consult the A 59(2)

body about the details of the management and control system, which will meet the requirements of Article 58. The AA will assess the system and give an opinion on compliance with Articles 58, 59 and 60 prior to its submission to the Commission in accordance with Article 71.

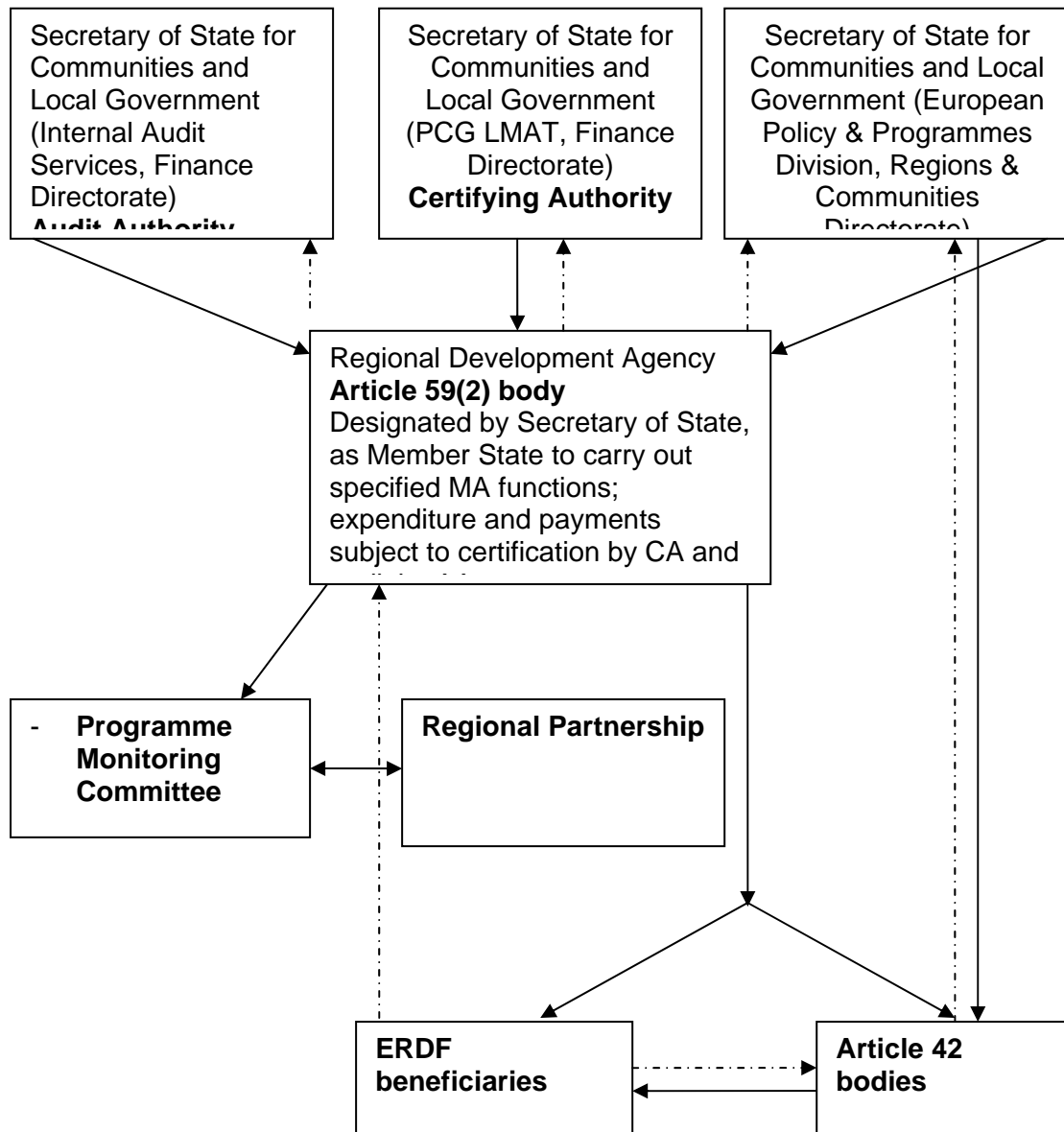
The organisation structures for ensuring sound management and control are set out below.

Diagram 1 illustrates the structure at a global level.

Diagram 2 illustrates the separation of functions with the Department for Communities and Local Government.

Diagram 3 illustrates the separation of functions with the Regional Development Agency (note that more detail on the RDA structure and financial flows is included in the second annex to this document).

**Diagram 1 - Global Management and Control System for ERDF Convergence and Regional Competitiveness Programmes in England.**



The direction of the solid arrow denotes the direction of management and control. The dotted arrows denote the direction of accountability.

**Diagram 2 - Separation of functions with the Department for Communities and Local Government**

(The direction of the arrows denotes reporting lines)

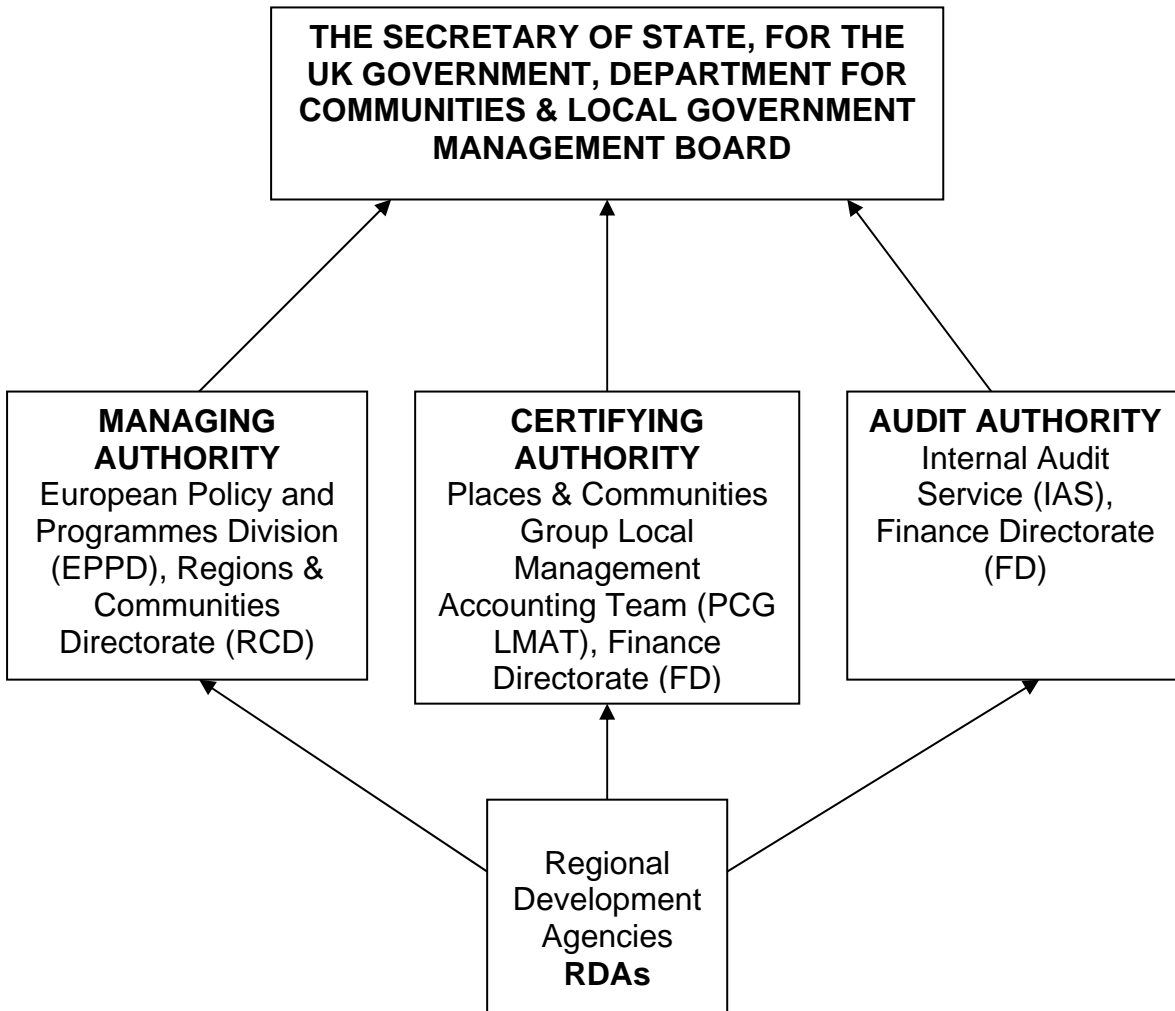
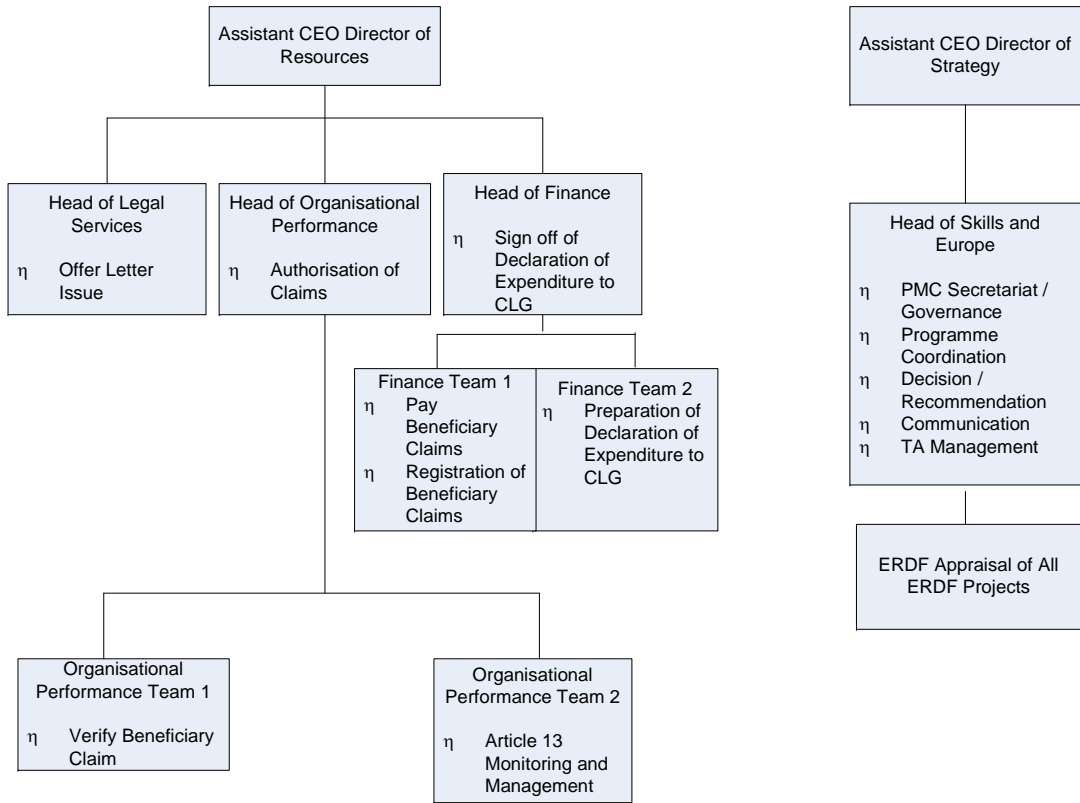




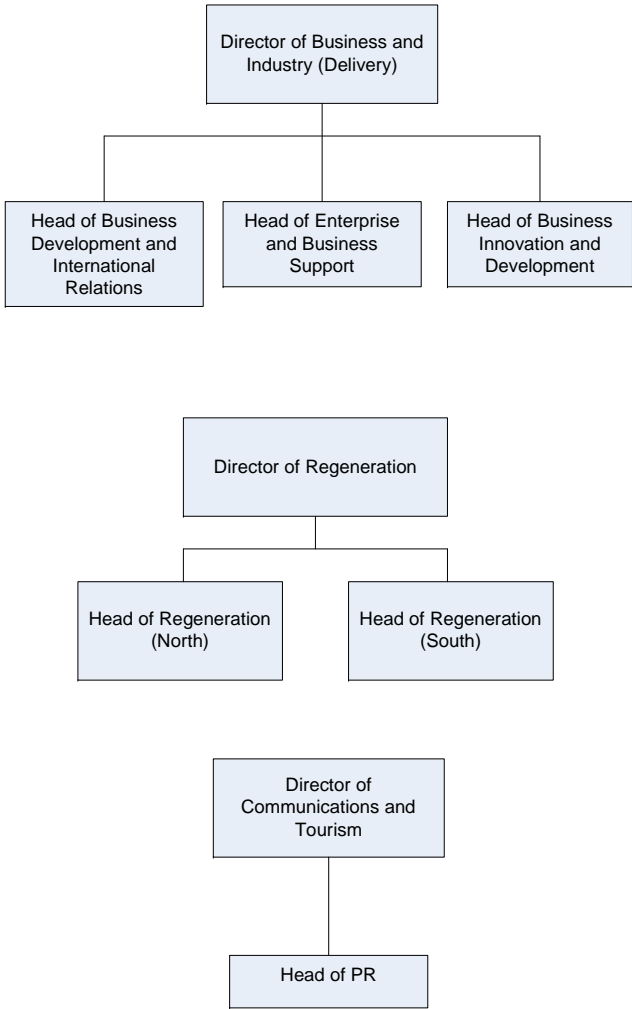


Diagram 3 - Separation of functions within the North East Regional Development Agency.

**Article 59 Role**



**Final Beneficiary Role**



## **Proportionality**

The proportional control arrangements set down in Article 74 will not apply to the OP.

## **Global Grants**

The Member State or the MA may entrust the management and implementation of a part of an OP to one or more intermediate bodies (A 42 bodies), designated by the Member State or the MA, including local authorities, regional development bodies or non-governmental organisations, in accordance with the provisions of an agreement concluded between the Member State or the MA and that body.

The Secretary of State, for the UK Government, does not have any intention, at present, to designate any A 42 body for the OP. Such a designation will be without prejudice to the financial responsibility of the MA and of the Member State.

The MA may consider designating an A 42 body on its own initiative, but would not make a designation without first consulting the A 59(2) body. Otherwise, a body will be considered by the MA for designation under Article 42 on the recommendation of the A 59(2) body and the PMC. If the A 59(2) body wishes to recommend any such designation, it will first:

(a) assess the following matters for each body or organisation proposed for the management of a global grant:

its solvency;

its competence in selecting and monitoring operations of the types to be covered by the global grant;

the robustness of its management and control arrangements and its competence in financial and administrative management;

(b) propose text for the agreement to be concluded by the MA with each A 42 body, making the designation and detailing the matters specified in Article 43 (which include the types of operation covered by the global grant; the outcomes and outputs to be achieved by the global grant; and management and financial controls set within the overall management and control system for the OP).

In considering whether to designate a body under Article 42, the MA will take account of all such matters and the guarantees about solvency and competence provided by the body or organisation itself to demonstrate compliance with Article 42(2).

The MA will provide reasons for a decision not to designate a body or organisation proposed for the management of a global grant.

If the MA decides to designate a body under Article 42, it will conclude an agreement with that body. The provisions of the agreement will detail the matters specified in Article 43. They will be finalised after full consideration of the text prepared by the A 59(2) body and after consultation with the A 59(2) body about any points that arise

from that text or any other matters arising. The MA may revoke the designation of an A 42 body according to the terms of the agreement.

As the designation of an A 42 body is the responsibility of the MA, it will not involve any sub-delegation of responsibility by the A 59(2) body. The functions entrusted to the A 59(2) body for the delivery of the OP will exclude functions relating to operations so far as they are entrusted to a body under Article 42.

Instead, the A 59(2) body will exercise some or all of the tasks of the MA in relation to global grants, which will be detailed in the Article 42 agreement and will relate, in particular, to monitoring, evaluating and ensuring financial control of the global grant. For these purposes, it may be appropriate for the A 59(2) body to record and regulate administrative matters relating to its conduct of MA tasks by provisions in the Article 42 agreement or in a separate agreement, and in particular to make clear that the A 42 bodies will report to the MA via the A 59 body (see diagram 1 above). The A 59(2) body cannot become an A 42 body, as conflict of interest.

The selection of projects under the global grant will be made through an advisory group, comprising the appropriate regional and local partners.

If any designations are made under Article 42, the bodies most likely to be designated include universities and local authorities, which already have and appropriate range of public responsibilities or functions, and are likely to be competent for designation.

### **Selection of operations for ERDF support**

The PMC is responsible for considering and approving the criteria for selecting the operations financed under the OP. The A 59(2) body will be responsible for putting forward proposals to the PMC for selection criteria. The role of the PMC is outlined in section 3 of these Implementing Provisions.

On behalf of the PMC, the A 59(2) body may set out an Investment Framework which sets the activities and operations that the PMC have agreed they wish to see delivered under the OP. The Investment Framework must be approved by the PMC. It may identify bodies or organisations that it believes are competent to deliver operations in line with the framework. Any framework will comply with Public Procurement Regulations (which implement EC public procurement directives), so far as they are applicable.

The procedure for selecting operations may take a variety of forms. For example:

Open bidding: where an open invitation is published for applications for the support of operations that meet a specified priority or objective of the OP;

Limited bidding: where a limited number of project sponsors is identified and invited to bid for the support of operations or sets of targets or outputs that meet a specified priority or objective of the OP;

Non-competitive selection: where a single project sponsor (or perhaps two or more) is either selected as appearing to be the only suitable and capable vehicle for delivering a specific operation or set of programme targets or outputs and invited to

submit an application for financial assistance; or applies for financial assistance on its own initiative for the support of an operation or a set of targets or outputs that appears to meet a priority or objective of the OP.

The MA, in deciding in broad terms the nature and scope of the criteria and processes for the selection and appraisal of projects, and the A 59(2) body in putting forward proposals to the PMC for such criteria, will ensure that all processes and criteria take full account of the need to secure compliance with the requirements of the Public Procurement Regulations (which implement EC Public Procurement Directives) or the need for suitable competitive tendering where the Regulations do not apply.

Once the criteria and investment strategy have been adopted by the PMC, the A 59(2) body will be responsible for managing the processes of developing operations, appraising proposals for operations, and making recommendations to the PMC or its appropriate sub-committees or groups.

## **7.5. COMPUTERISED EXCHANGE OF DATA**

The MA, in collaboration with the A 59(2) body, will develop and maintain appropriate data exchange systems to support the provision of information to the Commission and the efficient and effective management of the OP. The MA will ensure that the system allows data to be exchanged electronically with the system used by the Commission. The system will be accessible for use by the MA, the Article 59(2) body, the CA and the AA. The system will record and monitor operation outputs and the results of monitoring, verifications and audits undertaken in relation to programme operations. Such systems will be in place for the OP before the MA makes the first interim application for payment.

## **7.6. MONITORING ARRANGEMENTS AND SYSTEMS**

### **General**

The Secretary of State, for the UK Government, will ensure that the management and control system for the OP sets up an efficient system for monitoring the programme and individual operations supported by the programme, and requires the MA and the PMC to ensure the quality of the implementation of the programme.

Monitoring tasks of the MA both in relation to the OP as a whole and to individual operations will be carried out by the A 59(2) body, which will work with the PMC. In order to assist the PMC to discharge the tasks set out in Article 65, the A 59(2) body will provide updates on the progress of the OP in meeting its targets. Within this update, the A 59(2) body will specifically identify the progress of projects where the A 59(2) body is a beneficiary. Monitoring of operations where the A 59(2) body is a beneficiary will be sample checked and verified by an external body. If, as planned by the UK Government, the A 59(2) body is a regional development agency, the external body will be the National Audit Office, which will undertake this work as part of its annual external financial audit.

Monitoring by the MA and the A 59(2) body under Article 60(b) will be carried out in accordance with Article 13 of Commission Regulation 1828/2006. In the case of A 42 bodies, they will be required to monitor projects which they support. The A 59(2)

body will be responsible for quality assuring and verifying the monitoring activity of any A 42 body.

Monitoring will be conducted by reference to the financial indicators and the indicators referred to in Article 37(1)(c) which are specified for the OP and set out in the Indicators section of the programme.

Monitoring will also cover the effectiveness of financial controls and compliance with the Structural Funds Regulations and national rules that regulate matters of finance or propriety. Monitoring will be conducted in line with any guidance or instructions issued by the Commission. The A 59(2) body will also have regard to guidance issued by the MA concerning monitoring and the performance of verification function set out in Article 60(b).

### **Annual reports and final reports**

In accordance with Article 67(1), by 30 June 2008 and by 30 June in each subsequent year the MA will send the Commission an annual report. The MA will send the Commission a final report on the implementation of the OP by 31 March 2017.

Each report will be examined and approved in plenary by the PMC before it is sent to the Commission. The Managing Authority will review the report before it is sent to the Commission.

The reports will contain the information set out in Article 67(2).

In accordance with Article 68, every year, when the annual report on implementation referred to in Article 67 is submitted, the Commission and the MA will examine the progress in implementing the OP, the principal results achieved over the previous year, the financial implementation and other factors with a view to improving implementation.

The operation of the management and control system raised in the last annual control report, referred to in Article 62(1)(d)(i), may also be examined.

### **7.7. EVALUATION ARRANGEMENTS AND SYSTEMS**

The Secretary of State, for the UK Government, will carry out evaluations in relation to the OP in accordance with Articles 47 and 48, and the MA will have a role under Article 60(e) in ensuring that evaluations are carried out.

An *ex ante* evaluation for the OP has been carried out in accordance with Article 48(2) by an independent consultant. Alongside the *ex ante* evaluation, a Strategic Environmental Assessment was carried out in accordance with the requirements of Directive 2001/42/EC, also by an independent consultant. Both documents are annexed to the OP.

In accordance with Article 48(3), during the programme period, the Secretary of State, for the UK Government, will carry out evaluations linked to the monitoring of the OP, in particular where that monitoring reveals a significant departure from the goals initially set or where proposals are made for the revision of OPs, as referred to in Article 33. The results will be sent to the PMC and to the Commission.

The Commission may carry out strategic evaluations. Under Article 49(2) the Commission may carry out, on its own initiative and in partnership with the UK Government evaluations linked to the monitoring of the OP where monitoring has revealed a significant departure from the goals initially set. The results will be sent to the PMC.

In accordance with Article 49(3), the Commission will carry out an *ex post* evaluation for each objective in close co-operation with the Secretary of State, for the UK Government, and the MA. The *ex post* evaluation will cover the elements required by Article 49(3). It will be carried out by independent assessors and will be completed not later than three years after the end of the programming period.

## **7.8. FINANCIAL IMPLEMENTATION**

### **Financial contributions by the Funds**

Article 34 provides that operational programmes shall receive financing from only one Fund, save as otherwise provided in paragraph 3 (which is not relevant for the UK). Accordingly, the OP will receive funding only from the European Regional Development Fund.

This programme will be seeking to use the derogation set out in Article 34(2), whereby the ERDF and the ESF may finance, in a complementary manner and subject to a limit of 10% of community funding for each priority axis of an operational programme, actions falling within the scope of assistance from the other fund, provided that they are necessary for the satisfactory implementation of the operation and are directly linked to it.

This derogation will be applied to priority axes 1 and 2.

The MA will carry out an ongoing assessment of risk that the OP will fail to meet its financial and other targets, in particular the N+2 spend targets, as will the A 59(2) body, in line with guidance issued by the MA.

The MA will require regular updates from the A 59(2) body, increasing in frequency towards the end of the year, on the progress of the OP in meeting its N+2 targets. In consultation with the A 59(2) body, it will take the necessary course of action where the achievement of these targets is under threat.

At project level, risk will be assessed on the track record of the applicant, the nature of the project, the amount of the ERDF intervention and the total cost of the operation. It will take into account the opinion of the A 59(2) body's appraisal, payment and inspection unit who have knowledge of both the projects and beneficiaries.

### **Differentiation of rates of contribution**

In accordance with Article 53(1), the contribution from the Fund at the level of the OP will be calculated with reference to:

- (a) total eligible expenditure including public and private expenditure; or
- (b) public eligible expenditure

and will be subject to the ceilings set out in Annex III to Council Regulation 1083/2006.

The ERDF contribution for the OP will be subject to a maximum of 50% of the total eligible cost of the OP. Co-financing of support given by the ERDF will come from both a variety of public and private sources and both will be reflected within the OP Financial Table.

It will be a requirement of the OP that the provision of co-financing for operations is secured prior to the issue of the formal approval of the operation.

### **Technical Assistance**

Under Article 46 the Fund may, at the initiative of the Secretary of State, for the UK Government, finance the preparatory, management, monitoring, evaluation, information and control activities of the OP, together with activities to reinforce the administrative capacity for implementing the Fund within the limit of 4% of the total amount allocated for the OP (the limit for the Convergence and Regional competitiveness and employment objectives). As a matter of best practice, co-financing of Technical Assistance operations will be secured prior to formal approval of the individual operation.

The PMC will be invited to approve a plan for the use of Technical Assistance during the lifetime of the OP. This will be sent to the Commission for information. The Technical Assistance plan will be kept under review and may be changed, subject to the agreement of the PMC. However, the amount allocated will not exceed the 4% limit set down in Article 46.

### **Community budget commitments**

Article 75 provides that the Community budget commitments in respect of operational programmes shall be effected annually for each Fund and objective during the period between 1 January 2007 and 31 December 2013. The first budget commitment shall be made before the adoption by the Commission of the decision approving the OP. Each subsequent commitment shall be made, as a general rule, by 30 April each year.

### **De-commitments**

Provisions and procedures relating to de-commitment are laid down in Articles 93, 94, 95 and 96.

## **7.9. FINANCIAL FLOWS AND PAYMENTS**

### **General**

In setting up the system for managing and controlling the payment and expenditure of the ERDF contribution, the Secretary of State, as Member State, will: (a) observe all relevant requirements of the Structural Funds Regulations and these Implementing Provisions; (b) apply the standards of management and control generally applicable to the handling and expenditure of UK public funds; and (c) follow such general guidance and instructions as the UK Government and the Commission may provide from time to time on the management of European

Community funds. The MA and the CA will operate the system according to the same requirements and standards, and the A 59(2) body and all A 42 bodies will be required to do so, so far as relevant.

### **Financial Flows**

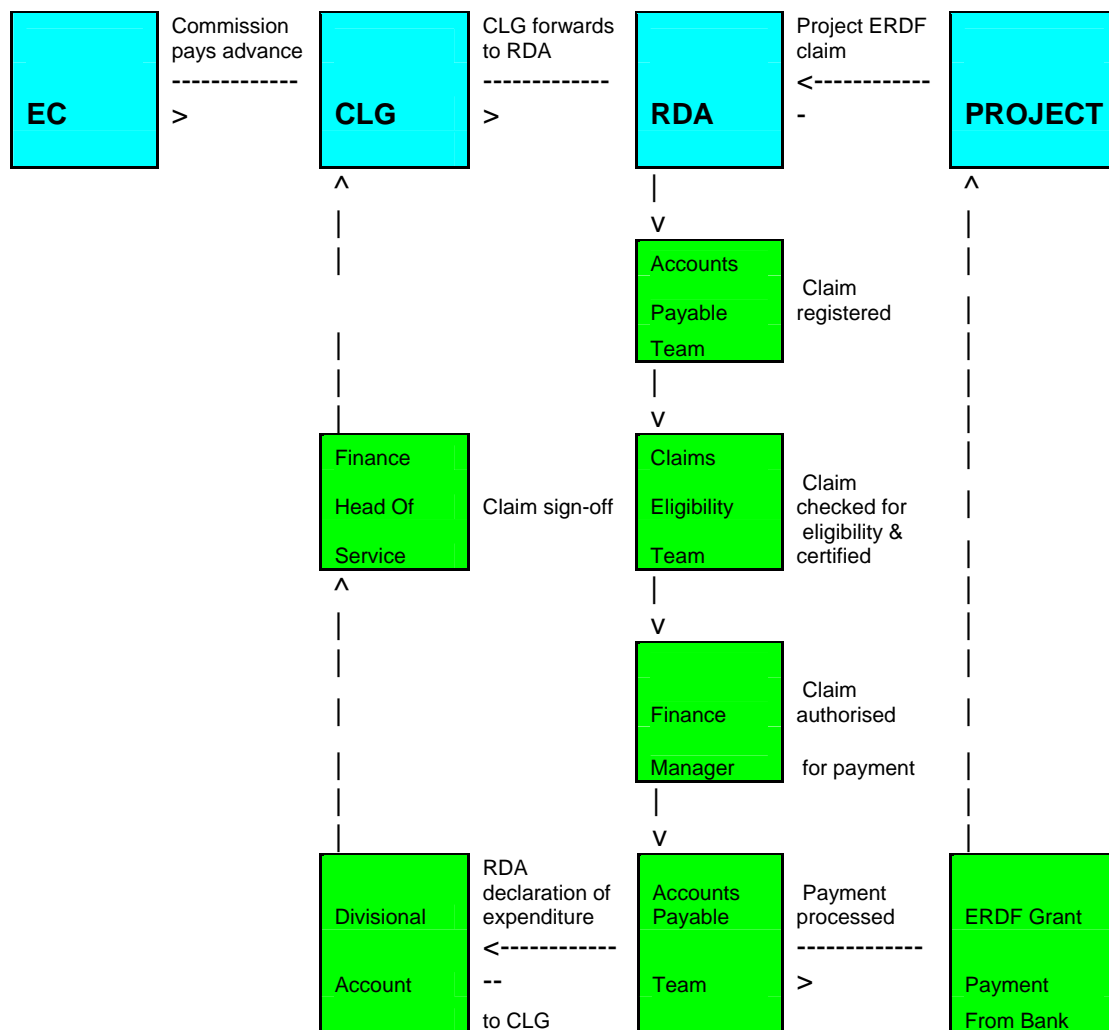
Financial flows will operate in accordance with the Structural Funds Regulations and the following procedures:

The A 59(2) body will be responsible for making offers of ERDF grant to persons responsible for selected operations, except operations supported by global grants. A 42 bodies will be responsible for making offers of ERDF grants to persons responsible for global grant operations. Offers of ERDF support will require grant recipients to comply with EC and national rules on eligibility of expenditure and with the requirements of the Public Procurement Regulations (which implement EC Directives on public procurement) or the need for suitable competitive tendering where the Directives do not apply. Operations and A 42 bodies will make declarations of interim claims expenditure to the A 59(2) body. The A 59(2) body will be responsible for verifying the validity of declared expenditure against the offer of grant and the eligibility conditions and other conditions set out in the grant offer. Global grant operations will make declarations of interim claims expenditure to the A 42 body, which will verify them before incorporating them within a global declaration to the A 59(2) body.

The A 59(2) body will make payments for operations and to A 42 bodies subject to verifying declarations of eligible expenditure. No amount will be deducted or withheld; no charges will be levied; and no steps will be taken that have the effect of reducing indirectly the amounts that beneficiaries receive.



**Financial flows overview for 2007-13 ERDF OPs**



In any instances where the A 59(2) body is a direct applicant for ERDF support (i.e. wishes to use ERDF resources to support an operation for which it is directly responsible), it will use a separate unit within its organisation to act as the grant recipient or project sponsor, except where Technical Assistance is being used to support the programme management tasks. This unit will not have any responsibilities in relation to the management and control of the OP. It will be functionally independent from the unit undertaking MA functions and will be required to maintain such functional independence. It will be accountable for the expenditure of the grant to the unit undertaking MA functions as though it were a separate organisation.

The A 59(2) body will submit to the CA declarations of interim expenditure. These declarations will cover the aggregate of eligible payments claimed by operations, including global grant applications. Submissions will usually be made quarterly and will be accompanied by all the necessary supporting information required to demonstrate the eligibility of expenditure under the Structural Funds Regulations, national eligibility rules, UK financial management requirements and any additional requirements of the CA. The submissions will be copied to the MA.

The submission from the A 59(2) body will be signed by a senior manager of the A 59(2) body, who will be distinct and independent from any unit of the A 59(2) body acting as a beneficiary of ERDF support.

The CA will draw up and submit to the Commission certificates of expenditure and applications for payment, in accordance with Article 78 and in the form prescribed in Annex X to Commission Regulation 1828/2006. The CA will review all information received from the MA and the A 59(2) body under Article 61(c) (concerning procedures and verifications carried out in relation to expenditure) and from the AA under Article 61(d) (results of audits, including the annual control report). It will carry out such checks as it thinks are necessary and appropriate to satisfy itself as to the eligibility of expenditure claimed.

## **Payments**

Payments from the Commission will take the form of: pre-financing; interim payments; and payments of the final balance. Payments will be made to the UK Government and received in a Treasury Account at the Bank of England. The MA will be authorised to draw down amounts from the account for the financing of the OP.

The UK Government will make appropriate arrangements to ensure that sufficient funds are available to enable the MA to meet the A 59(2) body's declarations of eligible expenditure in advance of receiving interim payments from the Commission. Such arrangements will comply with UK Government Accounting and Budgeting requirements.

## **Use of Euro and conversion rates**

In accordance with Article 81, all Statements of Expenditure and applications to the Commission for payment will be made in euros. Annual and final implementation reports will use the euro to report on expenditure. Amounts of expenditure incurred in sterling, in delivering operations, will be converted into euros using the monthly accounting exchange rate of the EC in the month during which the expenditure was registered in the accounts of the CA. This rate will be published electronically by the Commission each month.

## **7.10. FINANCIAL MANAGEMENT AND CONTROL ARRANGEMENTS**

### **General provisions**

Responsibility for providing an effective system of management and control of the OP lies with the Member State. The management and control system will comply with the requirements of Article 58 and will be subject to the reporting requirements laid down in Article 71.

### **Organisation**

The A 59(2) body will ensure that there is an appropriate separation of functions within its organisation between the units which are responsible for the functions of the MA falling within the following broad categories:

- appraising operations and issuing and varying offers of ERDF grant;
- verification of payment claims and monitoring operations; and

- financial matters, including making payments for operations and submitting declarations of expenditure to the CA.

The MA and CA will ensure that this separation of functions within the A 59(2) body is maintained throughout the lifetime of the OP.

### **Accounting Systems**

In order to facilitate the verification of expenditure by Community and national authorities, the MA, in exercising the function in Article 60(c), will ensure that all bodies involved in the management and implementation of the OP maintain either a separate accounting system or an adequate accounting codification capable of providing detailed and complete summaries of all transactions involving Community assistance.

### **Documentation**

The MA and the A 59(2) body will ensure that the requirements of Article 90 regarding the keeping of available documents are complied with.

### **Audit**

Besides being subject to the activities of the AA, audit by the Commission and audit by the European Court of Auditors, the financial control and management system will be subject to audit by the UK domestic audit authorities (the National Audit Office)

### **Irregularities and financial corrections**

The management and control system of the OP and steps taken by the MA to ensure that it is properly adhered to by all bodies concerned in the management and control of the programme will guard against irregularities while securing that any that do occur are detected, investigated and corrected. The A 59(2) body will have a primary role in the detection, investigation and correction of irregularities (particularly by virtue of its responsibility for monitoring and verification), and will be responsible for recovering grant in appropriate cases.

The Secretary of State, as Member State, will be responsible under Article 98 for investigating irregularities and making financial corrections. The A 59(2) body will notify the MA about irregularities and steps taken or proposed to resolve them. The MA will notify irregularities to the Department for Business Enterprise and Regulatory Reform (BERR), which is the central co-ordinating Department for the Member State with respect to the Structural Funds programmes.

BERR, acting for the Member State, will communicate with the Commission about irregularities and corrections.

The MA will report to the AA any cases involving fraud. BERR will report them to the Commission's OLAF service.

The MA will ensure that the A 59(2) body fulfils its responsibilities for the prevention, detection and investigation of irregularities and that it acts on reports prepared by the AA on any suspicion of irregularity.

## 7.11 INFORMATION AND PUBLICITY

The MA and the A 59(2) body will ensure that information and publicity measures conform to the provisions of Article 69 of Council Regulation 1083/2006 and Articles 2 to 10 of Commission Regulation 1828/2006, to ensure the full visibility of the funds throughout the programming area.

Publicity forms an integral part of the programme strategy and the MA will work with the A 59(2) body to ensure that the benefits of the ERDF is communicated to the wider public.

Innovative publicity activities and campaigns using print, broadcast and creative media will help the Managing Authority to clearly promote and position the ERDF brand. These activities will be developed proactively and implemented in collaboration with the European Commission in Brussels, the Representation Office in London and Information relays and networks in the UK, which will ensure the visibility and transparency of the funds at a local, regional and national level.

Potential project sponsors and final beneficiaries/fund recipients will be informed of funding opportunities and also the publicity requirements linked to receiving ERDF funding during the programming period.

To this end, the A 59(2) body will draw up a budgeted communication plan, which must be agreed by the PMC and submitted through the MA to the Commission within four months of the adoption of the OP.

The Communication plan will set out:

- the objectives of the plan and the target groups;
- activities in support of publicity and information including events, seminars and project launches, for potential applicants, partners and the wider public
- bodies or persons responsible for the implementation of the plan;
- the budget for implementing the plan; and
- evaluation frameworks for the plan.

The A 59(2) body will report on progress in implementing the plan (including examples of publicity activities) to the PMC and also in the annual implementation report. The communication plan will be easily accessible and will be published on the A 59(2) body's website.

Information will be provided by the A 59(2) body to potential beneficiaries in accordance with Article 5 of Commission Regulation 1828/2006, including the publicity and information measures that they are required to undertake to comply with Articles 8 and 9 of that Regulation.

Project sponsors will be required to observe the publicity elements of Commission Regulation 1828/2006, especially with regard to signage, including billboards, plaques and promotional material.

Funding for publicity and communications will be provided through the Technical Assistance budget for the OP. The financial table for the OP will specify the amounts dedicated to the Technical Assistance Priority Axis.

## **7.12. SUPPLEMENTARY OBJECTIVES**

### **Sustainable Development**

The OP will promote the objectives of sustainable development as required by Article 17.

These objectives have been reflected in the programme strategy and objectives. The programme has been subject of a Strategic Environmental Assessment as required under Directive 2001/42/EC.

The Managing Authority will, in accordance with Article 10 of (EC) Directive 2001/42/EC, monitor the significant environmental effects of the OP in order, inter alia, to identify unforeseen adverse effects and be in a position to undertake appropriate remedial action. This monitoring will be undertaken at three levels:-

First, the Environmental Report has suggested a selection of tracking indicators that can be used to monitor the environmental performance of the area. The Managing Authority will monitor against these indicators, where appropriate, to determine changes that occur and potential relationships with programme activities. As stated in the SEA, data for the majority of these indicators can be obtained from readily available sources. Performance against these indicators will be reported in the Annual Implementation Reports.

Secondly, the effectiveness of mainstreaming Environmental Sustainability as a Cross Cutting Theme will be assessed through the relevant Priority level indicators. Progress against the Priority level indicators will be reported in the Annual Implementation Reports and discussed at meetings of the PMC.

Thirdly, the Environmental Report proposes checking criteria to appraise the appropriateness of individual supported activities where they would result in a physical development. These criteria will be used, where appropriate, at project development stage so that potential adverse effects of supported activities are appropriately managed. Projects that have significant negative effects that can not be mitigated and outweigh positive benefits will not be supported by the OP.

Procedures will be in place to detect any project with a potentially negative effect on Natura 2000 sites and other sites designated for nature conservation. These will be scrutinized by the A 59(2) body in consultation with the Competent Environmental Authorities to ensure that no activities will be supported that will cause damage to designated sites. The appraisal process will also cover opportunities to strengthen the environmental aspects of projects and the guidance that is being developed will advise on how this is to be done and how it will be monitored.

The MA, PMC, A 59(2) body and all A 42 bodies will be required to implement the OP having regard to the objectives of sustainable development. In particular, the selection criteria for operations, outputs and indicators will take account of the need to protect and promote environmental sustainability. This will also involve assessing the impact of operations on these objectives, on appraisal and during the course of project monitoring and evaluation.

### **Gender equality and equal opportunities**

The OP will promote the objectives of equal opportunities and non-discrimination on the basis of race, ethnic origin, religion or belief, disability age or sexual orientation, as required by Article 16.

These objectives have been reflected in the programme strategy and priorities. The programme has been subject to an Equality Impact Screening as required by UK legislation, which are in Annex - to the OP. This programme has been subject to an Equality Impact Screening, which is in Annex 5 to the OP.

The MA, the PMC, the A 59(2) body and all A 42 bodies will be required to implement the OP having regard to the objectives of equal opportunities and non-discrimination. This will involve assessing the impact of operations on these objectives, on appraisal and during the course of project monitoring and evaluation.

### **Major projects**

Financial assistance may be given under the OP for the support of major projects. A major project is defined in Article 39 as an operation:

- which comprises an series of works, activities or services intended in itself to accomplish an indivisible task of a precise economic or technical nature;
- which has clearly identified goals; and
- whose total cost exceeds €25 million in the case of the environment and €50 million in other fields.

When the A 59(2) body appraises a major project, it will inform the Commission before deciding to approve support under the OP and provide the information necessary for appraisal of the project by the Commission as set out in Article 40 using Annex XXI to Commission Regulation 1828/2006).

### **Complementarity with the European Social Fund**

The MA and A 59(2) body will work with the MA for the national ESF programme (the Department for Work and Pensions) to ensure effective co-ordination of decisions taken in the implementation of the OP and the national ESF programme.

The A 59(2) body will be responsible for advising the PMC on what co-ordination with the ESF programme is necessary for meeting the objectives of the OP. The A 59(2) body will put in place appropriate communication and liaison arrangements with the MA for the ESF programme. The A 59(2) body and regional partners will consider whether a joint ERDF and ESF monitoring committee to aid co-ordination would benefit the OP.

The PMC may at any time meet jointly with any committee or group set up by the MA of the national ESF programme to discuss matters of mutual interest and to ensure effective co-ordination.

### **Complementarity with the European Agricultural Fund for Rural Development and the European Fisheries Fund**

The MA and A 59(2) body will work with the MA for the EAFRD and EFF programmes (the Department for Environment, Food and Rural Affairs) to ensure effective co-ordination of decisions taken in the implementation of the OP and the national EAFRD and EFF programmes.

The A 59(2) body will be responsible for advising the PMC what co-ordination with the EAFRD and EFF programmes is necessary for meeting the objectives of the OP. The A 59(2) body will put in place appropriate communication and liaison arrangements with the MA for the EAFRD and EFF programmes.

The PMC may at any time meet jointly with any committee or group set up by the MA of the EAFRD and EFF programmes to discuss matters of mutual interest and to ensure effective co-ordination.

### **7.13. USE OF RESERVES**

#### **National Performance Reserve**

A Member State may establish a National Performance Reserve for each of the Convergence or Regional Competitiveness objectives, consisting 3% of its total allocation for each objective. The UK Government has decided not to operate a national performance reserve for the OP.

#### **National Contingency Reserve**

A Member State may reserve an amount of 1% of the annual Convergence allocation and 3% of the annual Regional Competitiveness allocation to cover unforeseen local or sectoral crises linked to economic and social restructuring. The UK Government has decided not to operate a National Contingency Reserve for the OP.

### **7.14. FINANCIAL ENGINEERING**

In accordance with Article 44 of 1083/06, the ERDF may be used to co-finance financial engineering schemes for enterprises, primarily small and medium enterprises. The A 59(2) body will ensure that financial engineering operations supported by the ERDF are set up and implemented in compliance with Articles 43, 44 and 45 of Commission Regulation 1828/06.

Any proposal to set up financial engineering instruments will have to be agreed by the MA.

### **7.15. STATE AID**

Any public support under this programme must comply with the procedural and material rules applicable at the point in time when the public support is granted. The Member State, and in particular the MA of each OP, is fully responsible for compliance of the Structural Funds operations within the programme with the EC state aid rules.

The Member State, the MA and the A 59(2) body are responsible for ensuring that operations and activities supported under the OP are compatible with the common market.



## 8 FINANCIAL TABLES, including CATEGORISATION

**Table 1: Financial Plan of the Operational Programme giving the Annual Commitment of each fund in the Operational Programme**

Operational Programme Reference (CCI number):

Year by source for the programme in EUR

Year	ERDF	Total
2007		
In Regions without transitional support	50,535,996	50,535,996
Total 2007	50,535,996	50,535,996
2008		
In Regions without transitional support	51,546,717	51,546,717
Total 2008	51,546,717	51,546,717
2009		
In Regions without transitional support	52,577,651	52,577,651
Total 2009	52,577,651	52,577,651
2010		
In Regions without transitional support	53,629,204	53,629,204
Total 2010	53,629,204	53,629,204
2011		
In Regions without transitional support	54,701,788	54,701,788
Total 2011	54,701,788	54,701,788
2012		
In Regions without transitional support	55,795,824	55,795,824
Total 2012	55,795,824	55,795,824
2013		
In Regions without transitional support	56,911,740	56,911,740
Total 2013	56,911,740	56,911,740
Total in Regions without transitional support	375,698,920	375,698,920
Grand Total 2007-2013	375,698,920	375,698,920

Table 2  
Financial Plan of the Operational Programme giving, for the whole programming period, the amount of the total financial allocation of each fund in the Operational Programme, the national counterpart and the rate of reimbursement by priority Axis

Payments are made as reimbursements of expenditure actually paid out according to the following plan.

Operational programme reference (CCI number):

Priority axes by source of funding (in EUR)

	Community Funding (a)	National counterpart (b) (= (c) + (d))	Indicative breakdown of the national counterpart		Total funding (e) = (a)+(b)	Co-financing rate (f) <sup>4</sup> = (a)/(d)	For information	
			National Public funding (c)	National private funding <sup>5</sup> (d) *			EIB contributions	Other funding <sup>6</sup>
Priority Axis 1	199,120,428	199,120,428	179,208,385	19,912,043	398,240,856	50%		
Priority Axis 2	161,550,536	161,550,536	145,395,482	16,155,054	323,101,072	50%		
Priority Axis TA ...	15,027,956	15,027,956	13,525,160	1,502,796	30,055,912	50%		
Total	375,698,920	375,698,920	338,129,027	37,569,893	751,397,840	50%		

1 This rate may be rounded in the table. The precise rate used to reimburse payments is the ratio (e).

<sup>4</sup> This rate may be rounded to the nearest whole number in the table. The precise rate used to reimburse payments is the ratio (f)

<sup>5</sup> To be completed only when priority axes are expressed in total costs.

<sup>6</sup> Including national private funding when priority axes are expressed in public costs



## Categorisation of Structural Funds for Assistance 2007-2013

	<b>Codes for the priority theme dimension</b>	<b>ERDF in area without transitional support €</b>	<b>ERDF in area with transitional support €</b>	<b>Total ERDF Support</b>
Code	Priority theme			
	<b>Research and technological development (RTD), innovation and entrepreneurship</b>			
0 1	RTD activities in research centres	39,824,086		39,824,086
0 2	RTD infrastructures ( <i>including equipment, instrumentation and high speed computer networks between research institutes</i> ) and specific technology competence centres	39,824,086		39,824,086
3	Technology transfer and improvement of cooperation networks between SMEs and research institutes	9,956,021		9,956,021
4	Aid for the RTD in particular in the SMEs ( <i>including access to RTD services in the research centres</i> )	19,912,043		19,912,043
5	Advanced supporting services in companies and groups of companies	42,266,119		42,266,119
6	Assistance to SMEs for the promotion of environmentally products and processes	26,111,075		26,111,075
7	Investments in companies directly related to research and innovation ( <i>innovative technologies, creation of new companies by the universities, RTD institutes and existing companies, ...</i> )	9,956,021		9,956,021
8	Other investments in firms	27,726,581		27,726,581
0 9	Other actions aiming at stimulation of research and innovation and entrepreneurship in SMEs	22,617,075		22,617,075
	<b>Information society</b>			
10	CI infrastructures ( <i>including broad-band networks</i> )			
11	Information and communication technology ( <i>access, safety, interoperability, prevention of risks, research, innovation, e-content... </i> )			
12	Information and communication technology (TEN-TIC)			
13	Services and applications for the citizen ( <i>e-health, e-government, e-learning, e-inclusion, ...</i> )			
14	Services and applications for the SMEs ( <i>electronic trade, education/training, networking, ...</i> )	16,155,054		16,155,054
15	Other actions aiming at access to the TIC by the SMEs and their effective use	8,077,527		8,077,527
	<b>Transport</b>			
16	Rail			
17	Rail (TEN-T)			
18	Mobile rail assets			
19	Mobile rail assets (TEN-T)			
20	Motorways			
21	Motorways (TEN-T)			
22	Trunk roads			
23	Regional/local roads			
24	Cycle tracks			
25	Public transport			
26	Multimode transport			
27	Multimode transport (TEN-T)			
28	Intelligent transport systems			
29	Airports			
30	Ports			
31	Internal inland waterways ( <i>regional and local</i> )			

32	Internal inland waterways (TEN-T)			
	<b>Energy</b>			
33	Electricity			
34	Electricity (TEN-E)			
35	Natural gas			
36	Natural gas (TEN-E)			
37	Petroleum products			
38	Petroleum products (TEN-E)			
39	Renewable energy: wind			
40	Renewable energy: solar			
41	Renewable energy: biomass			
42	Renewable energy: hydroelectric, geothermic, and others	9,956,021		9,956,021
43	Energy efficiency, combined heat and power, control of energy	16,155,054		16,155,054
	<b>Environment and risks prevention</b>			
44	Domestic and industrial waste management			
45	Drinking water management and distribution			
46	Waste water ( <i>treatment</i> )			
47	Air quality			
48	Prevention and integrated pollution control			
49	Mitigation and adaptation to climate change			
50	Rehabilitation of factory sites and contaminated land	18,033,548		18,033,548
51	Promotion of biodiversity and nature conservancy ( <i>including Natura 2000</i> )			
52	Promotion of clean urban public transport			
53	Risks prevention ( <i>including the development and implementation of plans and actions to prevent and manage the natural and technological hazards</i> )			
54	Other actions aiming at the safeguarding of the environment and the prevention of risks			
	<b>Tourism</b>			
55	Promotion of natural assets			
56	Protection and development of natural inheritance			
57	Aid for the improvement of tourist services			
	<b>Culture</b>			
58	Protection and safeguarding of cultural heritage			
59	Development of cultural infrastructure			
60	Other assistance for the improvement of cultural services			
	<b>Urban/rural rehabilitation</b>			
61	Integrated projects for urban/rural rehabilitation	18,033,548		18,033,548
	<b>Increasing adaptability of workers and enterprises</b>			
62	Development of lifelong learning systems and strategies in companies; training and services for workers and managers to increase their adaptability to change			
63	Design and dissemination of innovative and more productive forms of work organisation			
64	Development of specific employment, training and support services for company and sector restructuring, and the development of systems to anticipate economic change and future occupational and skills requirements	10,077,532		10,077,532
	<b>Enhancing access to and sustainability of employment</b>			
65	Modernisation and strengthening of labour market institutions			
66	Implementation of active and preventive labour market measures, including encouraging active ageing and prolonging working lives			
67	Encouraging active ageing and prolonging working lives			
68	Supporting self-employment and entrepreneurship			

69	Actions to increase the sustainable participation and progress of women in employment; to reduce gender-based segregation in the labour market and to reconcile work and private life including by facilitating access to childcare and care for dependent persons			
70	Actions to increase migrant's participation in employment and thereby strengthen their social integration			
	<i>Reinforcing social inclusion of people at a disadvantage</i>			
71	Pathways to integration in employment for disadvantaged people including in the social economy; combating discrimination in accessing the labour market and promoting diversity in the workplace	11,033,552		11,033,552
	<i>Enhancing human capital</i>			
72	Design and introduction of reforms in education and training systems, in order to improve the labour market relevance of education and training; to raise their responsiveness to the needs of a knowledge-based society and continually update the skills of teaching and other personnel			
73	Increase participation in education and training; including initial vocational and tertiary education; and actions to achieve a significant decline in early school leaving			
74	Raising potential human capital in research and innovation, notably through post-graduate studies and training of researchers and related networking activities between universities, research centers and enterprises	14,956,021		14,956,021
	<i>Investments in social infrastructures</i>			
75	Infrastructures for education			
76	Infrastructures for health			
77	Infrastructures for childcare			
78	Infrastructure for housing			
79	Other social infrastructures			
	<i>Mobilising for reforms in the fields of employment and inclusion</i>			
80	Promoting partnerships, pacts and initiatives through networking of relevant stakeholders at national, regional and local level			
	<i>Strengthening institutional capacity at national, regional and local level</i>			
81	Mechanisms to improve the design and delivery of good policy and programmes at national, regional or local level, capacity building in the delivery of policies and programmes.			
82-84	<i>Reduction of additional costs hindering the outermost regions' development</i>			
	<i>Technical assistance</i>			
85	Preparation, implementation, follow-up and control	13,525,160		13,525,160
86	Evaluation, studies, conferences, publicity	1,502,796		1,502,796
<b>Table 2:</b>	<b>Coding of the form of financing dimension.</b>	<i>ERDF in area without transitional support €</i>	<i>ERDF in area with transitional support €</i>	<i>Total ERDF Support</i>
<b>Code</b>	<b>Form of financing</b>			
1	Non-refundable aid	355,698,920		355,698,920
2	Refundable aid ( <i>loan, interest subsidies, guarantee</i> )			
3	Venture capital ( <i>public capital holding, venture capital fund</i> )	20,000,000		20,000,000
4	Other form of financing			
<b>Table 3:</b>	<b>Coding of the territory dimension.</b>	<i>ERDF in area without transitional support €</i>	<i>ERDF in area with transitional support €</i>	<i>Total ERDF Support</i>
<b>Code</b>	<b>Territory</b>			
1	Urban centre			
2	Mountains			
3	Islands			
4	Sparsely populated areas			
5	Rural areas (not covered by 01-04)			
6	Former EU external borders			

7	Outermost region			
8	Cross-border cooperation area			
9	Transnational cooperation area			
10	Interregional cooperation area			
0	No application	375,698,920		375,698,920

## 9. EXECUTIVE SUMMARY OF EX ANTE EVALUATION

The ex ante evaluation of this operational programme was carried out by REGENERIS Consulting. Their Executive Summary follows. The complete evaluation is annexed to this Programme document.

### Summary of Key Findings

- 9.1 A considerable amount of work has gone into the development of the Programme and it has substantially improved since the consultation draft was produced in January 2007.
- 9.2 There are a number of strengths in the current North East Operational programme:
- 9.2.1 The summary socio-economic assessment is reasonably clear and articulates most of the key points and issues faced in the region. Coupled with the far more detailed supporting appendix, there is overall a strong evidence base. The socio-economic assessment has improved in terms of bringing out key issues and also key sub-regional differences.
  - 9.2.2 The NEOP makes a reasonably well argued case for the proposed programme and priorities. The document goes through a clear process which shows why certain priorities and activities have been selected. There is a well argued case for intervention for each priority in the strategy section.
  - 9.2.3 The strategy does have focus and clearly makes choices about what strands of the RES to support and what not to support. It is in some respects a bold strategy that departs from previous ERDF programmes with its strong focus on innovation and enterprise and, unlike other programmes, no sustainable urban development priority. There is a clear rationale given for this focus, which we find convincing in the light of the need to concentrate resources.
  - 9.2.4 The NEOP manages to simultaneously link to and be embedded in the RES and also have a distinctive quality.
  - 9.2.5 There are clear and well articulated links shown to EU, national and regional strategies and policies.
  - 9.2.6 There is recognition of other funding sources and their constraints in the future and so the practicalities of programme design.
  - 9.2.7 The value added of the OP in supporting activity in Priority 1 is particularly well articulated.
- 9.3 Our earlier comments on the weaknesses of the earlier draft have, to some extent, been addressed. However, there remain a number of weaknesses in the document. The most significant ones in the evaluator's opinion are:
- 9.3.1 The structure of the summary SWOT analysis and the attempt to link it to the six possible directions for economic change and then the RES remains difficult to follow. We understand the logic that has been followed, but it needs to be articulated more clearly and indeed could be a source of confusion.
  - 9.3.2 There are some missing pieces in the evidence base that would provide more justification for elements of the subsequent strategy – especially in relation to the sectoral focus and spatial disparities in property market and enterprise performance.



- 9.3.3 There is no convincing and transparent rationale for the proposed split of resources between Priority 1 and 2 (53% and 43% respectively of Programme resources). It is dealt with in a very cursory manner.
- 9.3.4 There is a lack of clear overall targets and vision for the NEOP and how exactly these relate to and contribute towards the RES vision and targets.
- 9.3.5 **Priority 1.** The NEOP provides clarity on what is to be supported and why, and what the NEOP's added value might be. There is a strong link to the region's Strategy for Success. However, there remain some areas where greater clarity and explanation is needed:
- First, we remain to be convinced about the purpose and value of the "supporting investments" related to the Innovator Connectors.
  - Second, the strong focus on capital intensive Innovator Connector projects as a means of boosting innovation in the region needs stronger justification (especially in light of earlier comments that the NEOP needs to be "capital light").
  - Third, there is still some lack of clarity on where activities are sectorally focused or more general. There is a need for a clearer articulation of what the priority sectors are and why they are the focus of Priority 1.
- 9.3.6 **Priority 2.** The NEOP provides clarity on what is to be supported and why, and a reasonable exposition of what the NEOP's added value might be. There remain some important issues:
- The Priority seems to be advocating simply supporting more mainstream activity that we would have expected core RDA and other funding to aid. There is a lack of clarity on the precise added value ERDF will bring.
  - There needs to be more clarity on spatial priorities here, given the variations in enterprise rates across the region. At present it lacks specificity and is too general.
- 9.3.7 In both priorities there is a need for some rationalisation of the indicators used and targets set. We believe the overall net additional GVA target at £1bn pa (or a 3% increase on current regional GVA) is very ambitious and may need to be reviewed.
- 9.3.8 The treatment of cross-cutting themes (CCT) has barely moved on since the previous draft and our earlier comments have hardly been addressed. It remains weak. However, more detailed aspects could be addressed in a CCT Implementation Plan.
- 9.3.9 The co-ordination chapter has also barely changed. Whilst we appreciate that the detailed mechanisms for ensuring co-ordination between ERDF and other structural funds have yet to be determined at a national level, the document could have moved on in its treatment of these issues (although demarcation arrangements between ERDF and EAFRD are outlined in the Implementing Provisions chapter).

## 10. SUMMARY OF STRATEGIC ENVIRONMENTAL ASSESSMENT

This chapter represents a summary of the main findings of the Strategic Environmental Assessment carried out for the partnership by WSP Environmental Ltd, who have provided the text that follows. The complete SEA is annexed to the Operational Programme.

### 10.1 Background

The European Regional Development Fund (ERDF) Operational Programme (OP) for the North East of England will set out how European Union (EU) Structural Funds will be spent within the region in the period 2007-13. Spending must be in line with European, national and regional policy priorities. The OP was developed by the Government Office for the North East and the Regional Development Agency.

A Strategic Environmental Assessment (SEA) of the Operational Programme has been undertaken and this Report forms a key output of the SEA process. This Report has been prepared by WSP Environmental on behalf of the Government Office for the North East.

The SEA considered the impacts that the OP might have on the natural environment and people within the region. The purpose of the SEA is to help make sure that the OP has as many positive effects as possible and that negative effects are avoided or reduced.

The SEA Statement acts as an important check on the OP, and on the SEA process. It helps to ensure that the environment has been considered at every stage, and that the information collated has influenced the final shape of the OP. The SEA Statement requires the decision maker to justify the choices made in the adopted OP.

This document has been structured around the requirements of the SEA Directive which asks for the following:

- How environmental considerations have been integrated into the OP ;
- How consultation responses on the SEA have been taken into account ;
- The reasons for choosing the OP as adopted, in light of reasonable alternatives; and
- Proposals for monitoring .

#### 10.1.1 Documents Produced

In addition to this statement, the following documents have been produced as part of the SEA process and are available on request from the Government Office.

- Scoping Report and Non Technical Summary dated August 2006
- Draft Environmental Report and Non Technical Summary dated January 2007
- Final Environmental Report and Non Technical Summary dated May 2007.

Copies are available from:

European Secretariat  
Government Office for the North East  
Citygate  
Gallowgate  
Newcastle upon Tyne NE1 4WH  
euro.team@gone.gsi.gov.uk

## 10.2 Integrating Environmental Considerations

This section summarises how environmental considerations have been taken into account in the preparation of the OP. The section briefly summarises the approach to SEA and then examines the OP itself.

### 10.2.1 The SEA Process

Production of the SEA has been overseen by a Steering Group comprised of representatives from the following organisations: The Environment Agency, The Regional Assembly, Natural England, English Heritage, Government Office North East and One North East.

Guidance on undertaking SEA refers to the use of objectives as the basis for undertaking the assessment. For the purposes of this SEA the objectives from the Integrated Regional Framework (IRF) for the North East, supplemented by a set of detailed questions (or criteria) have been used<sup>7</sup>. A set of specific questions helped focus the assessment around topics that the OP can influence (directly or indirectly). This approach is consistent with that used for the assessment of the RSS and RES. Performance against the objectives has been the basis for assessing the performance of the OP. The objectives and criteria incorporate comments from the Steering Group provided in comments on the Scoping Report.

The SEA has focussed on the following aspects of the section of the OP that sets out the strategy for the OP, including:

- The Global Objective of the Programme;
- The Priorities and Fields of Action;
- The Cross Cutting Themes; and
- Issues around implementation.

### 10.2.2 The OP and the Environment

The OP is primarily a revenue focussed programme. The main opportunities for contributing to environmental objectives will therefore relate to reducing the environmental impacts of the organisations that are supported, eg through improved Environmental Management Systems. The OP will include a capital element, for example helping to provide new business premises. There is opportunity to contribute to environmental objectives by ensuring that sustainable design and construction techniques are implemented, which the OP recognises. Such developments also provide opportunities to improve the wider public realm and secure other benefits, eg relating to biodiversity, through the provision of brown roofs for example.

The OP has a strong environmental theme running through it. Environmental Sustainability is identified as a Cross Cutting Theme and the final version of the OP includes a table setting out how each of the Priorities relate to this theme (Table 5.1 refers).

Effects on population must also be considered under the requirements SEA Directive, although the Directive does not make explicit the range of factors to be considered. The Steering Group for this work made it clear at the outset the OP should be tested against all of the IRF objectives, not just those relating to the built and natural environment. The OP also seeks to provide the framework against which benefits to disadvantaged groups can be optimised and also considers the spatial aspect of this issue. In line with the national requirement, the OP also has equality as a Cross Cutting Theme and Table 5.5 of the OP considers how each of the Priorities will contribute to this.

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<sup>7</sup> The Integrated Regional Framework for the North East (IRF) was published in 2004 as the Regional Sustainable Development Framework.  
December 2007 Final

### **10.2.3 How the SEA has been taken into account**

An initial SEA of an early draft of the OP produced the recommendations set out in Table 10.1 below. The table also summarises how the OP was amended in light of these comments.

<b>Table 10.1 Comments on an early version of the OP</b>	
<b>Comment</b>	<b>Response (note that the references relate to the previous version of the OP)</b>
<p><b>Does the Global Objective at 4.2.1 reflect the content of the OP?</b></p> <p>The Global Objective relates to increased GVA, increased business density and increased productivity. Consideration should be given to a more rounded objective that reflects the content of the OP and its commitment to sustainability and equality as cross cutting themes.</p>	<p>The objective was re-worded from the earlier draft to refer to achieving increased GVA in a sustainable manner through actions leading to: .....</p> <ul style="list-style-type: none"> <li>• enhanced participation by residents of disadvantaged areas in enterprise and in the science and innovation agendas.</li> <li>•</li> </ul> <p>Note that the final version of the OP has a reworded objective, retaining the reference to disadvantaged areas and including a target for job creation in such areas.</p>
<p><b>Environmental Sustainability as a Cross Cutting Theme</b></p> <p>Environmental Sustainability must be included as a Cross Cutting Theme and the draft Strategy for the Programme acknowledges this. It identifies the use of energy and resources as the most important issues. The initial assessment identified two questions:</p> <ul style="list-style-type: none"> <li>• Should this section present a more rounded view of environmental issues in the region (eg health, worklessness, climate change adaptation, sustainable consumption and production etc)?</li> <li>• If energy use and reducing CO2 are key factors does the OP do enough to encourage energy efficiency and take up of renewable forms of energy in the region?</li> </ul>	<p>The draft programme presents a more rounded view of environmental issues; this is not an outcome of the SEA but just reflects the fact that the full document was not prepared at the time the first version of the strategy was prepared.</p> <p>No change but Table 4.1 of the Programme outlines activities that will contribute to this objective: support will be provided for innovation centres with a focus on renewable energy and for energy related environmental industries.</p>
<p>The Priorities and Fields of Actions within them were appraised against the IRF objectives and the results are summarised below:</p>	
<p>Priority One - Field of Action: Exploitation of the science base: Could promote graduate placement under this action (link to IRF objective 1)?</p>	<p>The strategy has been amended. Page 44 makes reference to human resource actions under the Enhancing and Exploiting Innovation Priority.</p>
<p>Priority Two - Field of Action: Enhancing the competitiveness and growth of existing businesses: Currently there is no allowance for training provision in the OP. Depending on the scope of the ESF Programme, the OP could</p>	<p>The strategy has been amended. Page 44 makes reference to human resource actions under the Enhancing and Exploiting Innovation Priority.</p>

support NVQ level 4 and above where this is consistent with wider objectives (Link to IRF objective 3)?	
Priority One: Field of Action: Support for Innovation and Technology led sectors:- consider impacts on biodiversity as a condition for implementation, including provision of brown roofs (Link to IRF objective 8)	No change – carried forward in the Environmental Report as a recommendation relating to the implementation of the OP.
Field of Action: Cultivating and Sustaining Enterprise, including social enterprise- are social enterprises explicitly supported under this Priority? (link to IRF objective 14)	Table 4.1 of the Strategy notes that social enterprises ‘may’ be supported.
Secondary transport developments could feature in Priority 2 (link to IRF objective 15)	Table 4.1 states that this is not envisaged for this priority. The SEA Report will carry forward a recommendation that the OP supports the preparation of ‘Travel Plans’ for companies and areas under Priority 2. This is consistent with support under Priority 2 to reduce the environmental impacts of companies.
Field of Action: Enhancing the competitiveness and growth of existing businesses: The action includes assistance with exporting and other internationalisation – should the OP set out how to mitigate related effects and to encourage movement of goods by rail and sea where possible (link to IRF objectives 7 and 17)?	No change to the OP. Support under both priorities could be conditional on organisations considering their impacts on other communities, eg through the supply chain.
The OP should set clear targets, eg developments that receive support should achieve BREEAM Very Good as a minimum.	No change to the OP - carried forward in the Environmental Report as a recommendation relating to the implementation of the OP.
<p><b>Issues raised by the Steering Group</b></p> <p>Steering Group members raised a number of issues relating to implementation of the Programme and the need for built developments supported under the OP to:</p> <ul style="list-style-type: none"> <li>• Contribute to the protection and enhancement of the built and natural environments;</li> <li>• Contribute to the provision of green infrastructure and improvements to the public realm;</li> <li>• Retain/enhance biodiversity value on brownfield sites developed under the Programme; and</li> </ul>	No change to the OP - carried forward in the Environmental Report as a recommendation relating to the implementation of the OP.

<ul style="list-style-type: none"><li>• Promote carbon neutral development.</li></ul> <p>It was acknowledged that the OP must provide the appropriate hooks to ensure that projects incorporate such considerations.</p> <p>The Implementing Provisions will be the main mechanisms for securing these and should include an assessment tool that individual projects can be assessed against, so as to test their contribution to sustainable development. The checklist that has been devised to assess the emerging OP could also be used to assess individual projects.</p> <p>There may also be a need for a 'Sustainability Champion' and Steering Group to oversee the assessment of projects.</p>	
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Table 10.2 below summarises the recommendations set out in the draft Environmental Report and also comments on how the final OP responds to them.

#### 10.2.4 How consultation responses on the sea have been taken into account

A summary of the comments received on the Scoping Report and the responses to them are appended to the Environmental Report. A summary of the responses to comments on the Draft Environmental Report is provided in Table 2.3 below. Comments and the responses to them are summarised below.

#### 10.2.5 The Scoping Report

The ways in which the comments on the Scoping Report have been taken into account are as follows:

- Comments were received regarding the SEA Framework and the detailed questions within it. These comments were reviewed and most have been used as the basis for amendments to the framework;
- Some comments suggested additional documents to review and additional data sources. These have been considered and documents/sources of information reviewed where they were deemed to be relevant and where they filled an information gap;
- Some comments highlighted inaccuracies in baseline data and these have been corrected where correct data has been provided or it has been possible to be sourced;
- The baseline data has been reviewed again and a summary was incorporated in the Draft Environmental Report and is carried forward into the Final Environmental Report.

#### 10.2.6 The Draft Environmental Report

The comments on the draft Environmental Report have been considered. The key comments on the draft Environmental Report are summarised below and reported more fully in the final Environmental Report:

- Consultees were concerned about the fact that no negative effects were identified. The assessment identified a number of areas of uncertainty, where potential negative or positive effects might occur if development was not undertaken sensitively but it was not considered appropriate to identify these as definite negative effects because the OP is a strategy document and effects will depend on the projects that come forward. The implementing provisions will be key here and the Environmental Report makes recommendations on these;
- Consultees suggested that Priority 3 should have been appraised against the IRF objectives. Priority 3 sets out the arrangements for implementing the OP and it was not considered appropriate to appraise this against the objectives. The Environmental Report does comment on the implementing provisions and it is not considered that assessing the Priority against the objectives would have added value;
- Consultees suggested the need for a separate axis 'sustainable urban development.' The SEA team are content with the axes identified in the OP and the rationale for these. The team also welcome the Cross Cutting Themes incorporated in the OP, which provide the hooks to secure the benefits that the consultees had in mind from a sustainable development axis, Section 3 of this report says more on this.



<b>Table 10.2: Recommendations from the draft SEA Report and how the OP responded to them.</b>		
Recommendation	Comment	How was the OP amended
The OP needs to refer to the concept of 'One Planet Living' so that it is consistent with the RES Action Plan.	This would make the OP consistent with the emerging RES Action Plan. It is accepted that the RES Action Plan does not set out the full implications of working towards 'One Planet Living' but at least the concept has been flagged up. The Implementing Provisions should be reviewed as this concept develops.	No change to OP. The OP makes reference to climate change and resource efficiency, as did the draft. This recommendation has been carried forward into the final version of the SEA and it is hoped that One Planet Living is reflected in projects as they come forward, for example assistance in relation to environmental management could seek to achieve a factor four reduction in current use of energy and resources – this reduction is broadly consistent with that required across the board to achieve One Planet Living.
Secondary transport developments could feature in Priority 2 (link to IRF objective 15)	The OP could support the preparation of 'Travel Plans' for companies and areas under Priority 2. This is consistent with support under Priority 2 to reduce the environmental impacts of companies and could also have the benefit of tackling social exclusion associated with lack of mobility.	No change to OP. Carried forward in the SEA as a recommendation for future projects.
Support under both priorities could be conditional on organisations considering their impacts on other communities, eg through the supply chain and lifecycle of products (link to IRF objectives 7 and 17).	Add to Implementing Provisions	No change to OP. Carried forward in the SEA as a recommendation for future projects.
The OP should set clear targets, eg developments that receive support should achieve BREEAM Very Good as a minimum.	Add to Implementing Provisions. This is consistent with Policy in the emerging Regional Spatial Strategy.	Reference to BREEAM Good added to the final version of the OP (see page 78 for example).
The Implementing Provisions should include an assessment tool that individual projects can be assessed against, so as to test their contribution to sustainable development. The checklist that has been devised to assess the emerging OP could also be	This approach is consistent with the Regional Spatial Strategy, which calls for Sustainability Appraisal of major projects.  The checklist should help ensure that projects: <ul style="list-style-type: none"> <li>• Contribute to the</li> </ul>	The OP acknowledges the importance of this issue, it states (5.1.5):  Evaluation evidence shows clearly that the extent to which projects deliver environmental gains is influenced by:

<p>used to assess individual projects.</p>	<p>protection and enhancement of the built and natural environments;</p> <ul style="list-style-type: none"> <li>• Contribute to the provision of green infrastructure and improvements to the public realm;</li> <li>• Retain/enhance biodiversity value on brownfield sites developed under the Programme including promotion of 'Biodiversity by Design' and; incorporation of brown roofs on new developments. Ensure that development contributes to the new duty to have regard to the conservation of biodiversity when carrying out their duties;</li> <li>• Promote low carbon developments.</li> </ul>	<ul style="list-style-type: none"> <li>• The way in which project development, application and approval processes integrate environmental issues; and</li> <li>• The availability of environmental expertise, both to assist those developing projects, and in all relevant decision-making bodies.</li> </ul> <p>The NSRF emphasises the positive role of Environmental Sustainability Theme Managers in delivering environmental integration.</p> <p>While the method of delivery of the Competitiveness Programme is not yet clear, it is important that past experience informs the structures and processes which are put in place.</p>
<p>Consider the need for a 'Sustainability Champion' and Steering Group to oversee the assessment of projects.</p>	<p>Add to Implementing Provisions.</p>	<p>See comment above – arrangements are to be finalised.</p>
<p>The OP should define Environmental Technology as "technology that reduces the environmental impacts of consumption and production".</p>	<p>Amend Strategy</p>	<p>Environmental Technology does not appear to be defined in the final OP.</p>
<p>The OP should include a commitment to addressing the barriers to the deployment of environmental technologies and the factors that should shape future developments</p>	<p>Amend Strategy</p>	<p>Environmental Technology is identified as a key area of support (page 50 refers).</p>

## 10.3 The OP and Reasonable Alternatives

### 10.3.1 Introduction

This section considers the identification of alternatives and the reasons for selecting the preferred alternative. The term 'options' is used rather than 'reasonable alternatives'.

### 10.3.2 Identifying Options

An early paper prepared by the authors of the OP noted that the ERDF Regulations, the Community and National Guidelines collectively represent parameters that define the potential scope of the Competitiveness OP. In addition, the need to focus resources on the Lisbon agenda and to deliver Lisbon-relevant outcomes condition strategic choice.

Options for the OP were developed by the OP authors applying a filter to the themes identified in the Regional Economic Strategy. The filter took account of the priorities and guidance in:

- The ERDF Regulation;
- The Community Strategic Guidelines;
- The National Strategic Reference Framework;
- National Reform Programme (the Lisbon Goals); and

The filter also had regard to forecast trends in demand for public resources in order to ensure that the OP was focussed on areas where there would be a demand for additional resources and additionality could be demonstrated.

This process gave rise to a series of options which were presented in a paper prepared by the authors of the OP in August 2006:

#### Four-Priority Options

<b>Option 4.1</b>
Innovation
Business/Enterprise
Environment
Sustainable Urban Development/Social Inclusion

With the resources available, it was considered unlikely that credible Priorities could be developed in each of these areas; this option is not therefore considered reasonable (Article 5.1 of the SEA Directive).

### Three-Priority Options

Option 3.1	Option 3.2	Option 3.3	Option 3.4
Innovation	Innovation	Innovation	Innovation
Business/Enterprise	Business/Enterprise	Business/Enterprise	Business/Enterprise
Environment	Sustainable Urban Development/Social Inclusion	Environment	Sustainable Urban Development/Social Inclusion
Sustainable Urban Development/Social Inclusion (Horizontal)	Environment (Horizontal)		

Option 3.3 followed by Option 3.2 were considered by the consultants who were engaged to draft the OP to provide the best fit, having regard to the SWOT analysis, fit with the policy context and capacity to absorb additional resources. However, the limited scale of the ERDF resource raised questions as to the potential impact and additionality of a Programme with three operational Priority Axes and therefore the extent to which a Three Priority option would be reasonable within the meaning of the SEA Directive.

### Two-Priority Options

Option 2.1	Option 2.2	Option 2.3	Option 2.4	Option 2.5	Option 2.6
Innovation	Innovation Business/Enterprise	Innovation	Innovation	Innovation Business/Enterprise	Innovation
Business/Enterprise	Environment	Sustainable Urban Development/Social Inclusion	Business/Enterprise	Sustainable Urban Development/Social Inclusion	Business/Enterprise
		Environment (Horizontal)	Environment (Horizontal)	Environment (Horizontal)	Environment (Horizontal)
					Sustainable Urban Development/Social Inclusion (Horizontal)

Going down to two Priority Axes expanded the possibilities. Here consideration was given to the possibility of compressing the innovation and business and enterprise agendas into one priority. However, these are both substantial areas of activity, both assessed as having scope for expansion, currently rationed where revenue resources are concerned and capable of leveraging the Lisbon targets. It is debatable as to whether or not option 2.1 would be reasonable within the meaning of the SEA Directive, given the need for environmental sustainability to feature as a cross cutting theme.

### 10.3.3 Comparison of the environmental effects of the options

From the above analysis it can be concluded that an OP based on two Priority Axes is the only reasonable option for the North East. It is readily apparent that an option that includes the environment, sustainable urban development and social inclusion as a Priority or horizontal theme is more likely to align to more of the IRF objectives than an option that only includes the environment as a horizontal theme.

The Two Priority Options are assessed against the IRF objectives in Appendix C of the Environmental Report. Options 2.5 and 2.6 would align to most of the IRF objectives but there is scope for the preferred option to perform as well, given the need for environmental sustainability and equality as Cross Cutting Themes.

### 10.3.4 How environmental issues were considered in choosing the preferred option

The selection of options was informed by a review of the four themes set out in the National Strategic Reference Framework against the IRF objectives, which at that time was in draft form. This work is provided at Appendix D of the Environmental Report.

The assessment did not consider issues like:

- Additionality
- Balance between revenue and capital projects
- Scope for take-up of projects

These and other factors are relevant because options must be reasonable.

The key conclusions from this work were as follows:

- A lot of assumptions were made about the types of project a theme might support;
- No instances were identified where a theme would work against an objective;
- Theme 3 relates most directly to climate change adaptation. Theme 1 might also contribute, eg carbon footprint;
- Theme 4 might enable the provision of green infrastructure. The provision of green infrastructure was identified as a key issue in early discussions with the SEA Steering Group;
- Some uncertainty with Theme 2:– potential for site specific impacts;
- The contribution that Theme 1 would make is dependent on the type of projects supported;
- Need to clarify the scope of the 'Building Sustainable Communities' theme;
- Sustainable consumption and production should feature in the OP, because this would support a range of IRF objectives;
- Is there scope for a focussed environmental Cross Cutting Theme?
- There is scope for projects to contribute to more than one of the NSRF themes.

### 10.3.5 Other options considered and why these were rejected

No other reasonable alternatives were identified beyond those outlined in Section 6.2 above. The nature of the filtering process was such that it produced a focussed set of reasonable alternatives. Options such as 'do-nothing' or 'business as usual' would not be reasonable in the context of the OP, given the need to produce an OP and take account of the policy context that the OP has to conform with.

Some respondents to the OP felt that the proposed priorities do not fully encompass the revenue and capital activities within the remit of sustainable development and sustainable communities. They argued that although the rationale used in the derivation of the two priorities is acceptable in principle, there is still a strong argument for introducing a third priority (plus technical assistance). The third priority should support sustainable community economic development in the neediest communities. However, the number of explicit calls for a third priority was in the minority, with several respondents suggesting that the solution is to develop further the social or spatial inclusion aspects of the draft two priority structure.

#### The authors of the OP responded as follows:

There is clear divergence of views, but all the respondents who have suggested that a third Priority might be appropriate have also stated that a two Priority structure that shows how the sustainable urban development issue will be addressed would be acceptable.

- A sizeable minority of respondents firmly advocated the retention of the two Priority structure.
- The objectives of moving towards sustainable urban development can be achieved in the proposed structure.
- Introduction of an additional Priority would (a) almost inevitably lead to the dissipation of resources (this was noted in several responses), while (b) reducing the level of flexibility over investment choices that can be maintained in a two Priority structure.

The SEA Team supports the principle of using the Cross Cutting Themes as the vehicle for ensuring that wider sustainability issues are considered when projects come forward.

## 10.4 Monitoring

### 10.4.1 Introduction

The SEA Directive requires monitoring to identify unforeseen adverse effects and to enable appropriate remedial action to be taken (Article 10.1 refers). The factors to be monitored include:

- Biodiversity;
- Human health;
- Flora;
- Water;
- Material assets;
- Landscape.
- Population;
- Fauna;
- Soil;
- Climatic factors;
- Cultural heritage;

#### **10.4.2 Future Arrangements for Monitoring**

The arrangements for monitoring the programme are set out in Section 7 of the OP a Programme Monitoring Committee (PMC) will be established to oversee monitoring against the indicators specified in the OP. The OP also acknowledges the need for monitoring arrangements to comply with the requirements of the SEA Directive. It is suggested by the SEA team that monitoring is best undertaken at the project level, with results periodically reviewed, eg annually. A set of indicators will need to be established covering the factors set out above. The indicators should aim to identify both positive and negative effects. If any negative effects are identified the allocation/use of funding should be reviewed to ensure that such effects are avoided or mitigated. Within six months of approval of the OP, the PMC shall consider and approve the criteria for selecting the operations financed under the programme, state the appraisal and decision making procedures. The SEA report suggests that schemes are subjected to assessment using the IRF objectives. This approach should help avoid potential negative effects and optimise positive effects.

## **11 THE POLICY CONTEXT**

### **11.1 Consistency with the EU and UK Policy Context**

The investments proposed under Priorities 1 and 2 of the NE ERDF OP are demonstrably compatible with and will make a significant contribution to EU and UK policy orientations. The linkage between EU policy, UK policy and the actions proposed under the Programme are highlighted in Table 11.1



**TABLE 11.1: North East Operational Programme Development: Policy Context**

European Policy (Revised Lisbon Agenda and Community Strategic Guidelines Priorities)	UK Policy (Lisbon National Reform Programme and National Strategic Reference Framework Priorities)	Programme Actions
<b>Knowledge and Innovation - engines of sustainable growth</b>		
<ul style="list-style-type: none"> <li>• Increase and improve investment in RTD</li> </ul>	<ul style="list-style-type: none"> <li>• Promoting Productivity and Growth: Science, Innovation and Knowledge Transfer</li> </ul>	<ul style="list-style-type: none"> <li>• Priority 1: Support will be provided to develop links between businesses and technology providers, including universities and intermediate technology providers relating to the transfer of intellectual property and contracting out of research and development.</li> <li>• Support will be provided for network facilitation, development of linkages between technology providers and businesses and research into feasibility of scientific innovation</li> <li>• Priority 2: Envisaged under Priority One only.</li> </ul>
<ul style="list-style-type: none"> <li>• Facilitate innovation and promote entrepreneurship</li> </ul>	<ul style="list-style-type: none"> <li>• Promoting Productivity and Growth: Enterprise and Successful Business</li> <li>• Promoting Productivity and Growth: Science, Innovation and Knowledge Transfer</li> <li>• Promoting Productivity and Growth: Building Sustainable Communities</li> </ul>	<ul style="list-style-type: none"> <li>• Priority 1: Support will be provided for the commercialisation of ideas developed in the region's science base, including support for the development of spinout businesses to exploit such development.</li> <li>• Support will be provided for network facilitation, development of linkages between technology providers and businesses and research into feasibility of scientific innovation</li> <li>• Priority 2: Support for innovation is envisaged under Priority One only. Support will be provided under Priority 2 for actions to raise the profile of enterprise, for prospective entrepreneurs in the pre-start up phase and for businesses in the early stages of development, including incubation support. Specialised support will be provided to existing businesses to improve their management, processes and market reach.</li> <li>• Targeted actions to enhance the engagement of equal opportunities target groups and disadvantaged areas with enterprise will be supported, in line with the RES objective of linking areas of disadvantage with opportunity. This may include support for social enterprises. Growth in the number of businesses and among existing businesses will help overcome deficient demand in the labour market.</li> </ul>

<ul style="list-style-type: none"> <li>Promote the information society for all</li> </ul>		<ul style="list-style-type: none"> <li>Priority 1: Not envisaged under this Priority.</li> <li>Priority 2: Assistance will be provided to entrepreneurs and businesses to exploit advanced ICT applications, including e-commerce.</li> </ul>
<ul style="list-style-type: none"> <li>Improve access to finance</li> </ul>	<ul style="list-style-type: none"> <li>Promoting Productivity and Growth: Enterprise and Successful Business</li> <li>Promoting Productivity and Growth: Investment</li> </ul>	<ul style="list-style-type: none"> <li>Priority 1: Financial engineering support including equity, loan and grant funding will be made available to support business investment, including investment in new products and processes.</li> <li>Support will be provided for the commercialisation of ideas developed in the region's science base, including support for the development of spinout businesses to exploit such development.</li> <li>Assistance and financial support will be provided to potential investors in research and innovation activities.</li> <li>Priority 2: Financial engineering support including equity, loan and grant funding will be made available to support business investment.</li> </ul>
<ul style="list-style-type: none"> <li>To strengthen the synergies between environmental protection and growth</li> </ul>	<ul style="list-style-type: none"> <li>Promoting Productivity and Growth: Sustainable development, production and consumption and related innovation</li> <li>Promoting Productivity and Growth: Building Sustainable Communities</li> </ul>	<ul style="list-style-type: none"> <li>Priority 1: The region's environmental technology industries will be a priority sector for support. In Priority 2 support for improving environmental management will be made available to beneficiary businesses.</li> <li>Priority 2: Provision of incubator space will, where possible, be within mixed use sites.. Support will be provided to enterprises and businesses to help them manage their materials, energy and waste efficiency.</li> </ul>
<ul style="list-style-type: none"> <li>Address Europe's intensive use of traditional energy sources</li> </ul>	<ul style="list-style-type: none"> <li>Promoting Productivity and Growth: Sustainable development, production and consumption and related innovation</li> </ul>	<ul style="list-style-type: none"> <li>Priority 1: It is envisaged that support will be provided for innovation centres with a focus on renewable energy and for energy related environmental industries. Under Priority 2 Energy efficiency will be a dimension of the support with environmental management offered to all beneficiary businesses. Support for physical development will prioritise environmentally sound construction practice as well as high environmental performance in completed premises.</li> </ul>

		<ul style="list-style-type: none"> <li>• Priority 2: Environmental management support will help businesses to become more efficient, reducing their energy/resource intensity.</li> <li>• Provision of incubator space will where possible be within mixed use sites Support will be provided to enterprises and businesses to help them manage their materials, energy and waste efficiency.</li> </ul>
<b>Growth and employment making for social cohesion</b>		
<ul style="list-style-type: none"> <li>• Attract and retain more people in employment and modernise social protection systems</li> </ul>	<ul style="list-style-type: none"> <li>• Employment Opportunity for All: Extending Working Lives</li> </ul>	<ul style="list-style-type: none"> <li>• Priority 1: The contribution here will be indirect, through stimulating the creation of employment that will be reflected in labour market demand and also through positive actions to disperse and enhance access to employment opportunities in current and future innovation-led development.</li> <li>• Priority 2: Enterprise and business support actions will lead to job creation in existing businesses and an increase the number of new enterprises attracting more people into employment. Support actions will also improve the sustainability of new businesses and the competitiveness of existing businesses helping to retain more people in employment.</li> <li>• Enterprise actions will enhance the engagement of equal opportunities target groups and disadvantaged areas with the programme.</li> </ul>
<ul style="list-style-type: none"> <li>• Improve adaptability of workers and enterprises and the flexibility of the labour market</li> </ul>	<ul style="list-style-type: none"> <li>• Promoting Productivity and Growth: Skills</li> <li>• Employment Opportunity for All: Developing a Skilled and Adaptable Workforce</li> </ul>	<ul style="list-style-type: none"> <li>• Priority 1: ERDF Projects may incorporate ESF-style components that add value to their performance and help to overcome barriers to participation in innovation led projects.</li> <li>• Revenue interventions such as the North East productivity Alliance (NEPA) will focus upon improving the adaptability of enterprises and strengthening the region's productivity and growth performance.</li> </ul>

<ul style="list-style-type: none"> <li>• Increase investment in human capital through better education and skills</li> </ul>	<ul style="list-style-type: none"> <li>• Promoting Productivity and Growth: Skills</li> <li>• Employment Opportunity for All: Equipping People to Realise their Potential</li> <li>• Employment Opportunity for All: Developing a Skilled and Adaptable Workforce</li> </ul>	<ul style="list-style-type: none"> <li>• Priorities 1 and 2: ERDF Projects may incorporate ESF-style components that strengthen community engagement in innovation led projects (P1) and improve productivity of enterprises under P2.</li> <li>•</li> </ul>
<p><b>Gothenburg Agenda</b></p>		
<ul style="list-style-type: none"> <li>• Combating climate change</li> </ul>	<ul style="list-style-type: none"> <li>• Promoting Productivity and Growth: Sustainable development, production and consumption and related innovation</li> </ul>	<ul style="list-style-type: none"> <li>• Priority 1: It is envisaged that support will be provided for innovation centres with a focus on renewable energy and for energy related environmental industries. Energy efficiency will be a dimension of the support with environmental management offered to all beneficiary businesses. Support for physical development will prioritise environmentally sound construction practice as well as high environmental performance in completed premises.</li> <li>• Priority 2: Energy efficiency and environmental management support will help businesses to become more efficient, reducing their energy / resource intensity.</li> </ul>
<ul style="list-style-type: none"> <li>• Addressing threats to public health</li> </ul>	<ul style="list-style-type: none"> <li>• Promoting Productivity and Growth: Sustainable development, production and consumption and related innovation</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental management support to businesses and enterprise will help them to become more efficient, reducing emissions which represent a threat to public health.</li> </ul>
<ul style="list-style-type: none"> <li>• Managing natural resources more responsibly</li> </ul>	<ul style="list-style-type: none"> <li>• Promoting Productivity and Growth: Sustainable development, production and consumption and related innovation</li> </ul>	<ul style="list-style-type: none"> <li>• Priority 1 and 2: Support for improving environmental management will be made available to beneficiary businesses. and positive action will be taken to disperse and enhance access to employment opportunities in current and future innovation-led development. . The region's environmental, new and renewable energy technology industries will be a priority sector for support under P1. However, support for improving environmental and resource management will be made available to beneficiary businesses under P2.</li> </ul>

<p><b>Treaty of Amsterdam</b></p>		
<ul style="list-style-type: none"> <li>• Equality of opportunity for men and women</li> <li>• Combat discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation</li> </ul>	<ul style="list-style-type: none"> <li>• Employment Opportunity for All: Addressing Obstacles to Labour Participation</li> </ul>	<ul style="list-style-type: none"> <li>• Priority 1: The main opportunities for the integration of equal opportunity under Priority One relate to positive actions to disperse and enhance access to employment opportunities in current and future innovation-led development.</li> <li>• Priority 2: Enterprise actions will enhance the engagement of equal opportunities target groups, including women. Support with diversity and family-friendly working policies will help improve the appeal/ accessibility of jobs to more people, eg women and lone parents, and will improve working conditions.</li> <li>• Priorities 1 and 2: All physical developments will be compliant with or exceed statutory disabled access requirements.</li> </ul>

In addition, the North East Regional Competitiveness and Employment ERDF Programme will contribute to regional strategies beyond the RES. The most significant of the high level strategies are The Northern Way and the Regional Spatial Strategy. In addition Development Plans have been produced for the Tyne and Wear and Tees Valley City Regions.

## 11.2 The Northern Way

The Northern Way is a collaboration between the three Northern Regional Development Agencies: Yorkshire Forward, Northwest RDA and One NorthEast. It published its *Moving Forward Strategy* in 2004, which focused upon transforming the economy of the North of England and in particular on bridging the £30 billion output gap between the north and the average for England. A £100m fund was established for the business planning period 2005-2008.

Moving Forward identified a number of key areas to help accelerate the process of economic growth by presenting a 10 point *Northern Way Growth Strategy*, including bringing more people back to work, developing growth sectors, raising levels of entrepreneurship and strengthening the regions' knowledge base. Eight City regions were identified to promote faster economic growth including those based around the Tees Valley and Tyne and Wear conurbations in the North East of England.

Three years on from the growth strategy the Northern Way has undertaken a review of its activities in partnership with the Regional Development Agencies, the City Regions, the Regional Assemblies and Central Government. The outcome of the review published in Spring 2007 provided for a clearer role and policy focus upon three priority areas which offer the strongest opportunity for improving the productivity of the North and which have a clear pan-regional dimension where the North Way can add value to existing regional or city regional activities. These priority areas have been agreed as transport, innovation in industry and private sector investment and their inter-relationship with this Programme's activities is shown in the table overleaf.

<b>THE NORTHERN WAY</b>	
<b>Northern Way Priority Area</b>	<b>ERDF Programme Actions</b>
Innovation in Industry	By targeting Priority 1 resources - so as to enhance and promote innovation, harness expertise from business and academia, achieve higher R&D spending, provide support for technology led sectors and Innovation Connectors - the North East ERDF OP will complement the agenda of the N8 (group of research led Universities in the North) to create pioneering world class research centres and build upon existing research and industrial strengths across the three Northern regions.
Private Sector Investment	The OP will provide for access to finance, equity and Venture Capital funds in both Priorities 1 and 2 that will facilitate greater access to private sector funding within the North East. It will also allow for the consideration of JESSICA and JEREMIE type funding instruments over the course of the programme so as to attract enhanced private sector investment in pursuit of OP objectives.

### 11.3 The Regional Spatial Strategy

The Regional Spatial Strategy (RSS) sets out a long-term plan for the spatial development of the North East. It provides the spatial context for the delivery of other regional strategies, in particular the RES, Regional Housing Strategy and the Integrated Regional Framework, all of which share the common objective of reducing the economic and social disparities between the North East and other regions within the context of sustainable development.

Plans, strategies and programmes within the region will aim to support and incorporate the RSS location strategy to maximise the major assets and opportunities available in the North East and to regenerate those areas affected by social, economic and environmental problems by:

- i) supporting the polycentric development and redevelopment of the Tyne and Wear city region and the Tees Valley City region by concentrating the majority of new development in the conurbation and main towns, particularly within the core areas;
- ii) allowing development appropriate in scale within the towns in the regeneration areas and rural service centres within the Tyne and Wear and Tees Valley City regions;
- iii) maintaining vibrant rural areas with a diversified economy and sustainable market towns, service centres and centres and villages whilst preserving their historic fabric and character.

The RSS views the successful renaissance of the region being achieved through the implementation and progress of four themes:

- Delivering economic prosperity and growth.
- Delivering sustainable communities.
- Conserving, enhancing and capitalising upon the region's diverse natural and built environment, heritage and culture.
- Improving connectivity and accessibility within and beyond the region.

The RSS endorses the city-region approach to development, based on the core areas of NewcastleGateshead, Sunderland and Middlesbrough/Stockton, but also emphasises the need to address the regeneration of areas outside of the city regions, including East Cleveland and South East Northumberland. Job creation and retention is identified as a particular priority in the regeneration areas, along with investment in business support to improve productivity, local enterprise, and a focus on education and training and addressing worklessness.

The RSS highlights that many regeneration areas suffer from environmental problems and poor quality housing and will require associated initiatives to improve the image and business confidence, as well as the quality of life of residents. The role of the rural service centres is supported. With improvements to communications, it is anticipated that businesses will locate in rural areas and, combined with sustainable growth of tourism, this will provide opportunities to diversify and strengthen the rural economy.

The table overleaf shows the link between the RSS themes and OP actions.

<b>REGIONAL SPATIAL STRATEGY</b>	
<b>RSS Theme</b>	<b>ERDF Programme Actions</b>
Delivering economic prosperity and growth	Priorities 1 and 2 will support RSS regional objectives surrounding innovation, technology and business growth and the need to base this around existing economic centres.
Delivering sustainable communities	Part of the Programme of Innovation Connectors proposed under Priority 1 will provide a regeneration focus for disadvantaged communities. Action under Priority 1 will help to raise community aspirations and engagement in science and innovation as well as environmental sustainability in businesses. Priority 2 will support innovative actions to enhance enterprise culture among young people and communities.
Conserving, enhancing and capitalising upon the region's diverse natural and built environment, heritage and culture	To the extent that the Programme will support capital developments, both Priority 1 and Priority 2 will encourage a high standard of design and environmental performance. Support for business development under Priority 2 will be available to SMEs involved in culture, heritage, environmental and eco-tourism markets. Priorities 1 and 2 provide support for environmental management actions including energy efficiency and waste minimisation.

## 11.4 City Regions

### (a) Tyne and Wear City Region Development Plan

The Government defines City Regions as 'a central urban area, or two or more closely linked urban areas, together with those areas around them with which they have significant interaction.' The Tyne and Wear partnership's approach has not been to define hard boundaries but rather to be driven by the need for critical mass and the interests of the people living within the sphere of influence of the urban core.

The Tyne and Wear City Region consists of a number of urban areas. The two largest urban concentrations of businesses and employment are centred around NewcastleGateshead, extending along both sides of the River Tyne, and central Sunderland. A number of other distinct communities lie within the core urban area, particularly in North Tyneside and South Tyneside, with Washington also a significant concentration of economic activity.

Significant concentrations of population also lie along the coastal areas to the north of the Tyne and south of the River Wear, including the former coalmining communities of Ashington and Easington, Peterlee and the ports of Blyth and Seaham. Towns situated further afield, such as Hexham, Morpeth, Chester-le-Street, Consett and Durham City, while not within the contiguous urban area of the City Region, are urban centres in their own right, with their own travel to work patterns and catchment areas which need to be taken into account as part of the City Region approach.

In total the Tyne and Wear City Region covers around 1.65m people, of which around 1 million are of working age, 65% live within the urban core, with a further 15% within South East Northumberland and the Tyne Valley and 20% in the northern part of County Durham.



## Tyne and Wear Priority Areas for action

The key priority areas for action highlighted within the Tyne and Wear City Regional Development Plan (2005) include the following:

- **Newcastle Science City** – involves a significant new partnership between Newcastle City Council, One NorthEast, Newcastle University, Durham University, the International Centre for Life and the NHS. Science City is a unique integration of science and technology research and development and its application with spatial planning and urban development. It has developed as a key initiative building on the economic assets of the city region, its research base, with a strong spatial, physical and sustainable community dimension.
- **Design Corridor and Design Centre for the North:** Located within the Tyne and Wear City Region The Design Centre for the North will enhance the capacity of SMEs to develop new products, processes and services by exploiting international best practice, supporting its dissemination across the region, in particular the application of science and technology in the field of design through support for skill development and the provision of facilities and specialist services.
- **Supporting Local enterprise:** The approach aims to embed a more targeted approach to local enterprise development to build upon mainstream provision and focus resources on economic inclusion. The prioritisation of disadvantaged communities and under-represented groups is a major element of this approach.
- **e-connectivity and broadband take-up:** The priority here is to exploit and upgrade the broadband coverage that currently exists within the City Region to ensure that the application of ICT and its take-up across SMEs and businesses is strengthened and that competitiveness is enhanced.

Tyne and Wear	
TW CRDP	ERDF Programme Actions
Newcastle Science City	Under priority 1 of the ERDF OP a major focus for investment will be the Innovation Connectors. Newcastle Science City represents an attempt to link physical regeneration, sustainable communities, competitiveness and economic development activity
Design Corridor and Design Centre for the North	As above, the Design Centre for the North has been identified under Priority 1 as one of the Innovation Connectors that as well as having a specialised technology focus, will provide a focus for physical regeneration and a range of opportunities that will be open to local businesses and residents..
Supporting Local enterprise	Under Priority 1 investment will incorporate positive actions to enhance access to employment opportunities in innovation led development. Under Priority 2 enterprise and business support actions will target SMEs in deprived areas by enhancing and extending LEGI type activity. Support will also encourage the engagement of equal

	opportunities target groups. The provision of mainstream support services will be added to in order to facilitate the development and sustainability of social and community enterprise.
e-connectivity and broadband take-up	Priority 2 will provide SMEs with assistance on the exploitation of advanced ICT applications to improve efficiency and to access new markets.

### **(b) Tees Valley City Region Development Plan**

Located in the south of the region the Tees Valley City Region is based around the five towns of Darlington, Hartlepool, Middlesbrough, Stockton on Tees and Redcar. It also includes the Borough of Sedgefield. The sphere of influence of the Tees Valley extends from Peterlee and Durham City in the north to Northallerton in the South and from Richmond in the West to Whitby in the East. The City Region including the area of influence has a population of 875,000 of which 650,000 live in the five Tees Valley Authorities of Darlington, Hartlepool, Middlesbrough, Redcar and Cleveland and Stockton on Tees.

The Tees Valley economy is based on the largest integrated heavy industrial complex in the UK. There are three main components:

- The petrochemical cluster at Wilton, Billingham and Seal Sands is the largest integrated chemicals complex in the UK in terms of manufacturing capacity and the second largest in Europe. It contributes £3.5 billion to the UK economy and 70,000 jobs in the UK depend on it. It is also backed up by the Wilton Centre which is the largest non-military private sector research centre in Western Europe and a world-class engineering design and plant maintenance industry employing 5,000 people.
- The Redcar Steel Complex, one of three main producer sites in the UK and significant exporter of steel;
- Teesport, the second largest port in the UK which handles 10% of all UK traffic; oil and gas based chemicals, iron ore import, coal imports and steel exports account for about 75% of its trade.

In 2005 as part of the Northern Way initiative the Tees Valley authorities produced a City Region Development Plan (CRDP). This was subsequently updated at the request of national Government in 2006 and identifies two key priorities:

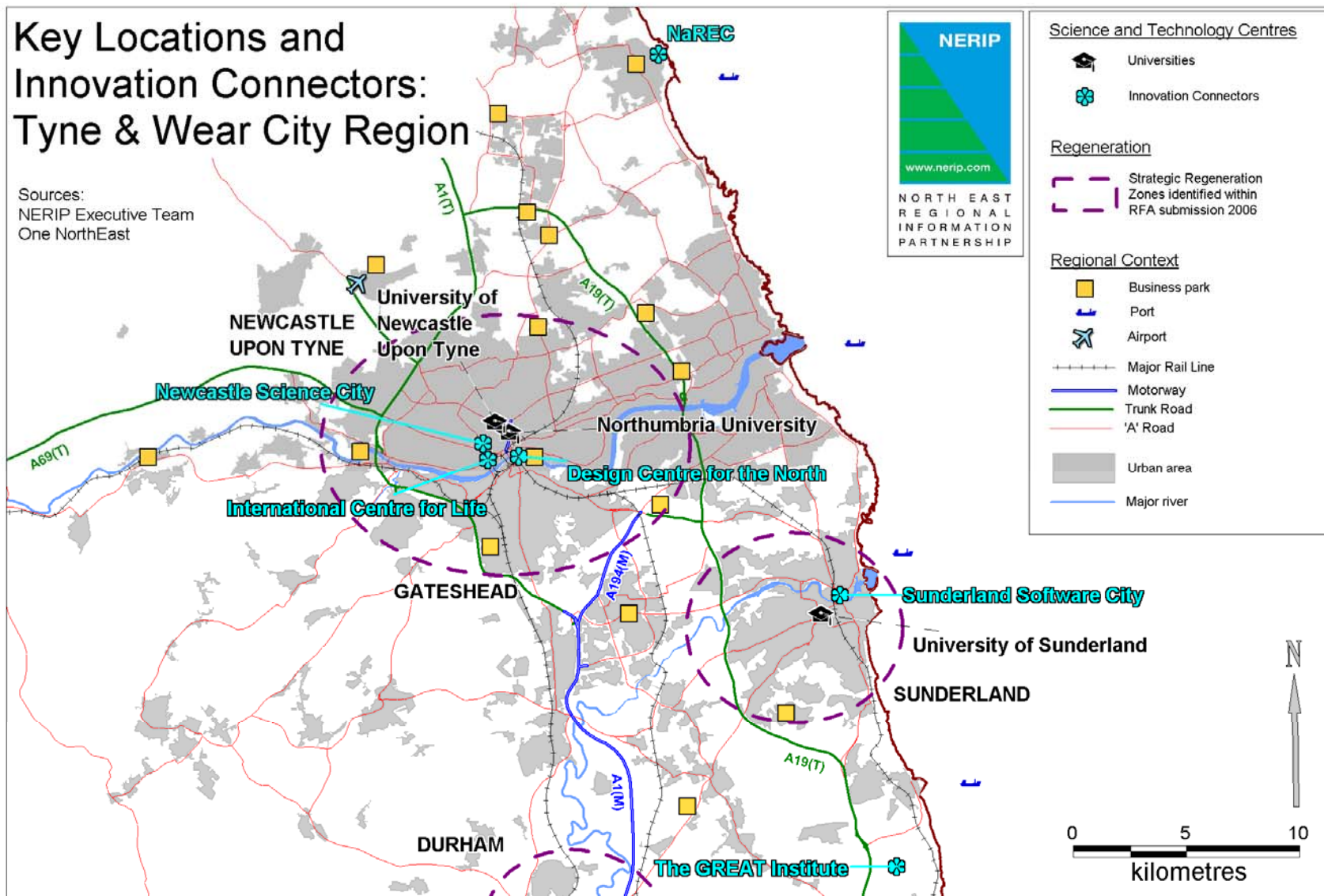
- i) To build upon the economic assets of the City Region. This highlights the world class chemicals and process industry and research base and its potential for future development both for chemicals and as a national Centre for energy development.
- ii) To improve urban competitiveness and liveability of the Tees Valley through upgrading the business environment, skill base and physical, social and cultural infrastructures so as to attract and retain high growth, innovation and profitable firms and an educated, creative, entrepreneurial workforce thereby enabling them to achieve a high rate of productivity, high employment rate, high wages, high GDP per capita and low levels of income inequality and social exclusion.

The inter-relationship between the CRDP and this Programme is shown below.

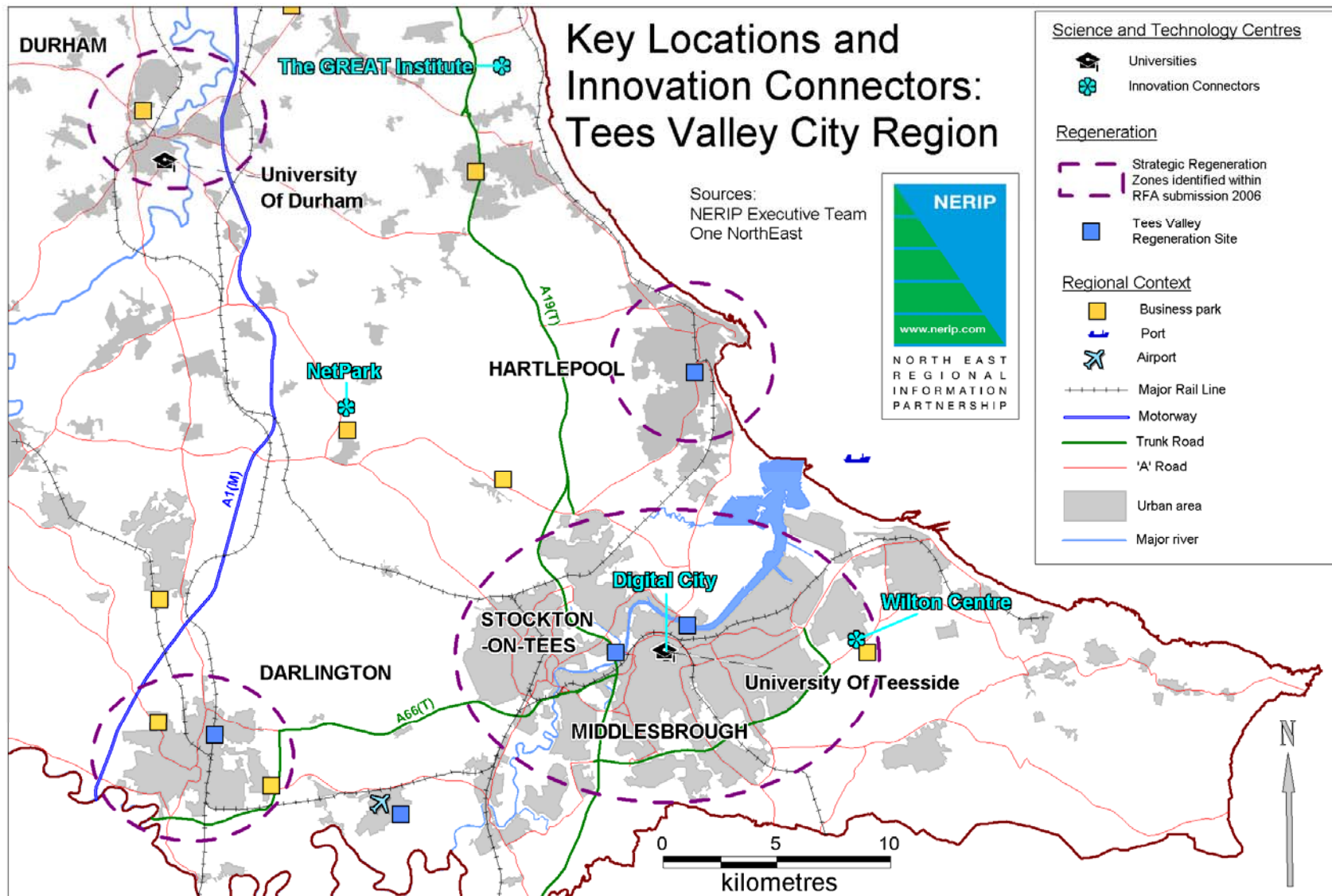
<b>Tees Valley</b>	
<b>TV CRDP</b>	<b>ERDF Programme Actions</b>
To build upon the economic assets of the TV City Region	Investment under Priority 1 in support of technology led sectors, the exploitation of the science base and the Innovation Connectors listed in Chapter 4 will provide direct support for the chemical, process and renewable energy industries in the Tees Valley area and the Wilton Centre for material technology research and its applications in particular.
To improve the urban competitiveness and liveability of the TV region	<p>The role of Innovation Connectors under Priority 1 in bridging the innovation and sustainable community agenda will directly address the urban competitiveness agenda of the TV CRDP by raising aspirations and by promoting the creativity, participation and education of targeted communities of the innovation agenda and its application to the wider Tees Valley community.</p> <p>In Priority 2 investment will also support actions to raise the profile of enterprise, start-up and business development, competitiveness and growth of SMEs. Specialised support will be provided to existing businesses to improve management (including environmental management), processes and market reach and targeted actions will seek to enhance the engagement of targeted community groups and disadvantaged areas, including support for social enterprise.</p>

## Maps

The maps that follow show the principal characteristics of the two City regions.



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## Annex: Performance Indicators, Definitions and Monitoring Guidance

PRIORITY 1:		
Performance Indicator	Definition	Monitoring Guidance
<b>Outputs</b>		
No of new SMEs and spin-out business assisted with innovation, including integrated development of workforce skills where appropriate.	Defined as SMEs, under 12 months old since the commencement of trading, receiving a minimum of 2 days consultancy advice or other non-financial assistance, or equivalent, with a monetary value of at least £1,000.	May be counted when there has been a <u>minimum</u> of 2 days consultancy advice or non-financial assistance, or equivalent, with a monetary value of at least £1,000. A business can only be counted once within a project irrespective of the number of times or forms of assistance it receives.
No of SMEs assisted with innovation, including integrated development of workforce skills where appropriate.	Defined as SMEs trading for more than 12 months at the time assistance is granted a minimum of 2 days consultancy advice or other non-financial assistance, or equivalent, with a monetary value of at least £1,000.	May be counted when there has been a <u>minimum</u> of 2 days consultancy advice or other non-financial assistance, or equivalent, with a monetary value of at least £1,000. A business can only be counted once within a project irrespective of the number of times or forms of assistance it receives.
No of SMEs receiving financial assistance.	Defined as new SMEs or SMEs receiving loans, equity investment and grants, except where the grants are for consultancy support.	May be counted when there has been financial support with a <u>minimum</u> value of at least £1,000. A business can only be counted once within a project irrespective of the number of times or forms of assistance it receives.
Area of R&D premises developed (m2).	Defined as the area of high specification accommodation provided for occupancy by research institutions and technology based SMEs. It should be measured in square metres.	May be counted when the development or refurbishment is complete and ready for occupation.
Brownfield land reclaimed &/or redeveloped (ha).	Defined as the number of hectares of brownfield land that will be taken to the point where accommodation can be provided on site i.e. available for development.	May be counted when the ERDF-supported reclamation / site preparation operations are complete and the land is ready for development.
No of integrated packages of activity to embed the benefits of investments in innovation in disadvantaged communities	Defined as composite initiatives that seek to engage residents of disadvantaged communities with employment or other opportunities arising from Innovation Connector projects.	A simple count of package activity. May be counted when the package is approved and work on the first constituent project commences.
No. of people assisted in their skills development	Defined as the number of beneficiaries of training	May be counted when the individual completes

directly related to Innovation Connectors and/or Centres of Excellence.	or other HRD interventions supported who are prospective or current employees of Innovation Connectors or designated Centres of Excellence.	their participation in the training course or other HRD support.
<b>Results</b>		
No. of gross jobs created, of which (i) men (ii) women (iii) in disadvantaged areas	Defined as a new, permanent, paid, full time equivalent (FTE) job. <i>New</i> = should not have existed in the region or with that employer in the UK before the intervention <i>Permanent</i> = should have a life expectancy of at least 1 year from the point at which it is created. <i>FTE</i> = paid work of 30 hours or more per week. Convert part time jobs to FTE either: <ul style="list-style-type: none"> <li>on a pro rata basis based on hours worked; or</li> </ul> 2 part time jobs = 1 FTE, where no other information available (i.e. EC approach)	When a new, permanent, FTE or equivalent, paid post is filled. <i>Seasonal jobs</i> may be counted where they are integral to the project for example in the tourism sector, provided there is a contract of employment that will last for a minimum of 4 weeks per annum. Calculated on a pro rata basis e.g. a 3 month job = 0.25FTE or 2 part-time jobs = 1FTE, if no data are available.
No. of gross jobs safeguarded, of which (i) men (ii) women (iii) in disadvantaged areas	Defined as a permanent, paid, full time equivalent (FTE) job which is at risk. <i>At Risk</i> is defined as being forecast to be lost within 1 year normally i.e. the jobs at risk must be specified, or if sector is in long-term decline a longer period might be appropriate.	May be counted when the relevant job: <ul style="list-style-type: none"> <li>is forecast as at risk when the project was approved; <u>and</u></li> <li>is still in existence at the time of counting; <u>and</u></li> <li>is no longer at risk of being lost within a year.</li> </ul>
No. of businesses assisted with improved performance	A subset of New SMEs Assisted, SMEs assisted and SMEs receiving financial assistance reporting some improved performance in some dimension as a result of the assistance provided.	Should be counted up to 3 years following the support provided.
No. of businesses assisted with improved environmental management (i) of which related to improved energy efficiency, micro-renewables and other management of carbon footprint	A subset of No. of businesses assisted with improved performance, where the focus of improvement was environmental performance.	Should be counted up to 3 years following the support provided.
No. of assisted businesses within the region engaged in new collaborations with the knowledge base	Defined as first involvement between at least one firm and one knowledge base organisation. It includes the first collaboration by a firm with a department within a knowledge base organisation.	May be counted when the collaboration between a business and the knowledge base starts.

Private Sector expenditure on R&D levered.	Defined as private sector expenditure on R&D taking place as a result of non-financial and financial assistance provided to new SMEs and SMEs under this Priority.	Should be counted up to 3 years following the support provided.
<b>Impacts</b>		
Net Increase in GVA as a result of the Programme	defined as the net change in gross value added at regional level resulting from ERDF interventions. It can be measured as gross new and safeguarded value added, <b>minus</b> the effects of deadweight and displacement, <b>plus</b> multiplier effects. This must be expressed as annual levels in £s.	Progress against this indicator will be through evaluation rather than routine monitoring of projects.
Net Increase in employment	defined as the net change in employment at regional level resulting from ERDF interventions. It can be measured as gross jobs created and safeguarded, <b>minus</b> the effects of deadweight and displacement, <b>plus</b> multiplier effects. This must be expressed in full time equivalents.	Progress against this indicator will be through evaluation rather than routine monitoring of projects.



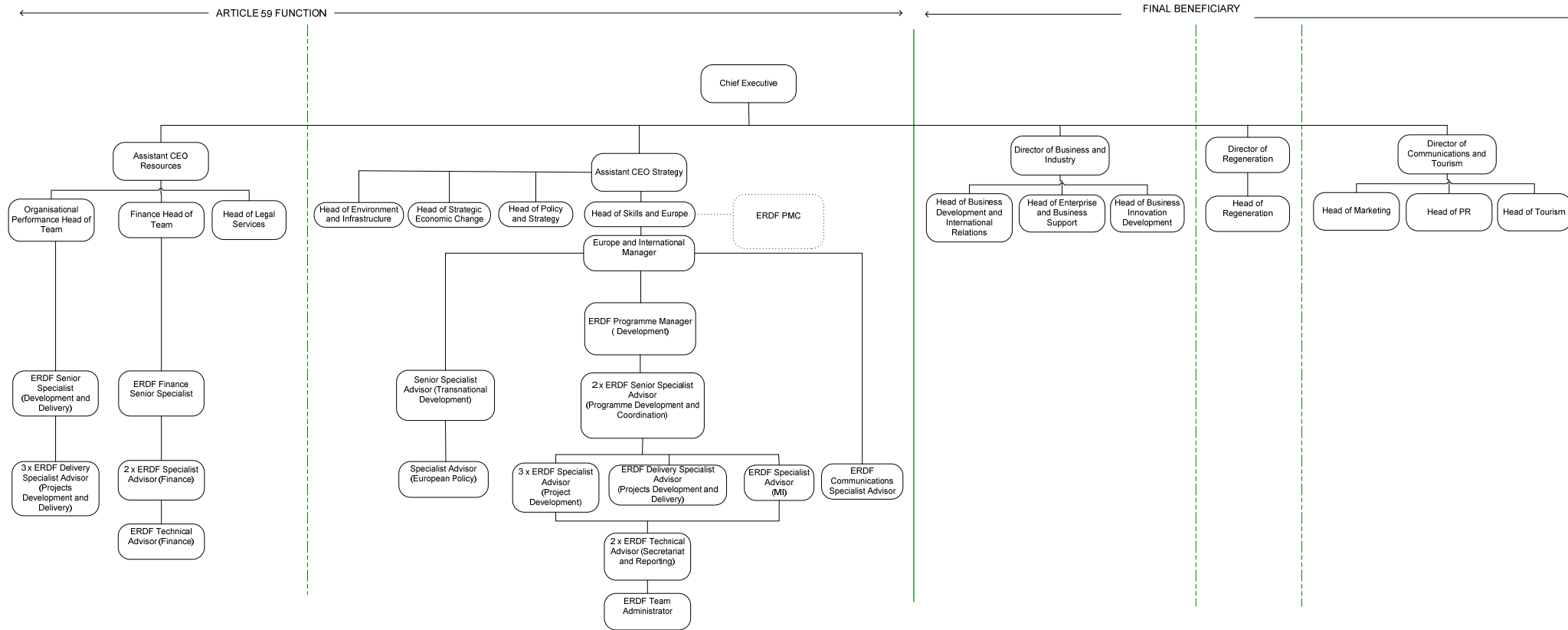
<b>PRIORITY 2:</b>		
<b>Performance Indicator</b>	<b>Definition</b>	<b>Monitoring Guidance</b>
<b>Outputs</b>		
No of new SMEs assisted, including integrated development of workforce skills where appropriate.	Defined as SMEs, under 12 months old since the commencement of trading, receiving a minimum of 2 days consultancy advice or other non-financial assistance, or equivalent, with a monetary value of at least £1,000.	May be counted when there has been a <u>minimum</u> of 2 days consultancy advice or non-financial assistance, or equivalent, with a monetary value of at least £1,000. A business can only be counted once within a project irrespective of the number of times or forms of assistance it receives.
No of SMEs assisted, including integrated development of workforce skills where appropriate.	Defined as SMEs trading for more than 12 months at the time assistance is granted a minimum of 2 days consultancy advice or other non-financial assistance, or equivalent, with a monetary value of at least £1,000.	May be counted when there has been a <u>minimum</u> of 2 days consultancy advice or other non-financial assistance, or equivalent, with a monetary value of at least £1,000. A business can only be counted once within a project irrespective of the number of times or forms of assistance it receives.
No of SMEs receiving financial assistance.	Defined as new SMEs or SMEs receiving loans, equity investment and grants, except where the grants are for consultancy support.	May be counted when there has been financial support with a <u>minimum</u> value of at least £1,000. A business can only be counted once within a project irrespective of the number of times or forms of assistance it receives.
No of integrated initiatives to develop enterprise in disadvantaged communities	Defined as packages of projects undertaken to stimulate interest in enterprise and pre-start up support in disadvantaged communities.	A simple count of package activity. May be counted when the package is approved and work on the first constituent project commences.
No. of SMEs assisted that are social enterprises	Subset of New SMEs Assisted, SMEs assisted and SMEs receiving financial assistance conforming to the definition: "Social enterprises are businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners."	As per New SMEs Assisted, SMEs assisted and SMEs receiving financial assistance.
Area of business premises developed (m2)	defined as the area of new and refurbished floorspace provided for occupancy by SMEs and should be measured in square metres	May be counted when the development or refurbishment is complete and ready for occupation.

Brownfield Land reclaimed &/or redeveloped (ha)	Defined as the number of hectares of brownfield land that will be taken to the point where accommodation can be provided on site i.e. available for development.	May be counted when the ERDF-supported reclamation / site preparation operations are complete and the land is ready for development.
<b>Results</b>		
No. of gross jobs created, of which (i) men (ii) women (iii) in disadvantaged areas	Defines as a new, permanent, paid, full time equivalent (FTE) job. <i>New</i> = should not have existed in the region or with that employer in the UK before the intervention <i>Permanent</i> = should have a life expectancy of at least 1 year from the point at which it is created. <i>FTE</i> = paid work of 30 hours or more per week. Convert part time jobs to FTE either: <ul style="list-style-type: none"> <li>on a pro rata basis based on hours worked; or</li> </ul> 2 part time jobs = 1 FTE, where no other information available (i.e. EC approach)	When a new, permanent, FTE or equivalent, paid post is filled. <i>Seasonal jobs</i> may be counted where they are integral to the project for example in the tourism sector, provided there is a contract of employment that will last for a minimum of 4 weeks per annum. Calculated on a pro rata basis e.g. a 3 month job = 0.25FTE or 2 part-time jobs = 1FTE, if no data is available.
No. of gross jobs safeguarded, of which (i) men (ii) women (iii) in disadvantaged areas	To qualify there must be a permanent, paid, full time equivalent (FTE) job which is at risk. At Risk is defined as being forecast to be lost within 1 year normally i.e. the jobs at risk must be specified, or if sector is in long-term decline a longer period might be appropriate.	When it is: <ul style="list-style-type: none"> <li>forecast as at risk when the project was approved; and</li> <li>is still in existence at the time of counting; and</li> <li>is no longer at risk of being lost within a year.</li> </ul>
No. of businesses assisted with improved performance	A subset of New SMEs Assisted, SMEs assisted and SMEs receiving financial assistance reporting some improved performance in some dimension as a result of the assistance provided.	Should be counted up to 3 years following the support provided.
No. of businesses assisted with improved environmental management (i) of which related to improved energy efficiency, micro-renewables and other management of carbon footprint	A subset of No. of businesses assisted with improved performance, where the focus of improvement was environmental performance.	Should be counted up to 3 years following the support provided.
No. of businesses created or attracted to the region (i) in disadvantaged areas.	When a new business is created in the region or locates in the region with ERDF support and starts trading. Businesses attracted to the region are defined as:	<i>Starts trading</i> is the date when the business registers for VAT or registers for National Insurance (Class 2) contributions

	<ul style="list-style-type: none"> <li>new to the region branches of businesses which remain established elsewhere in the UK and in the EU.</li> <li>foreign direct investment bringing new enterprises to the region, both first time investment and subsequent expansions from outside the UK and outside the EU.</li> </ul>	
No. of businesses created or attracted to the region surviving 12 months	Subset of No. of businesses created or attracted to the region.	May be counted when the business created or attracted is still in operation 12 months after it started trading in the region.
<b>Impacts</b>		
Net Increase in GVA as a result of the Programme	defined as the net change in gross value added at regional level resulting from ERDF interventions. It can be measured as gross new and safeguarded value added, <b>minus</b> the effects of deadweight and displacement, <b>plus</b> multiplier effects. This must be expressed as annual levels in £s.	Progress against this indicator will be through evaluation rather than routine monitoring of projects.
Net Increase in employment	defined as the net change in employment at regional level resulting from ERDF interventions. It can be measured as gross jobs created and safeguarded, <b>minus</b> the effects of deadweight and displacement, <b>plus</b> multiplier effects. This must be expressed in full time equivalents.	Progress against this indicator will be through evaluation rather than routine monitoring of projects.

Annex: Detailed RDA structure and financial flow chart

One NorthEast ERDF 2007 – 13  
Organisational Structure



One NorthEast  
ERDF 2007 – 2013  
Financial flows

