EUROPEAN UNION
Investing in Your Future
European Regional
Development Fund 2007-13

regeneris
ECONOMICS·RESEARCH·ANALYSIS

# London ERDF 2007-13 Programme: Interim Evaluation

A Final Report by
Regeneris Consulting

# EPMU at the Greater London Authority (GLA)

# London ERDF 2007-13 Programme

August 2012

**Regeneris Consulting Ltd**

70 Cowcross Street
London
EC1M 6EJ
0207 608 7200

Faulkner House
Faulkner Street
Manchester M1 4DY
0161 234 9910

www.regeneris.co.uk

# Contents

# 1. Executive Summary

## Programme Overview

i. The London 2007-2013 ERDF Competitiveness Programme provides a total of €181 million or £146.6[1] for investment in London. The vision for the Programme is to promote sustainable, environmentally efficient growth, capitalising on London's innovation and knowledge resources with a focus on promoting social inclusion through extending economic opportunities to communities, in areas where this is most needed.

ii. The investment strategy was constructed around four priority axis (priorities) to which Programme resources were allocated. These are as follows:

- Priority 1: business innovation and research and promoting eco-efficiency (£40.3m)
- Priority 2: access to new markets and access to finance (£41.8m)
- Priority 3: sustainable places for business (£58.6m)
- Priority 4: technical assistance (£5.9m).

## Key Findings

iii. The key findings of this interim evaluation are based on 20 interviews with strategic consultees, a review of 20 projects supported by the Programme, a detailed analysis of Programme data and background information about the Programme, and a review of policy changes and socio-economic data impacting on the Programme. The findings are structured around the five objectives set out within the original brief for this evaluation as summarised below.

| Objective | Key Finding |
|---|---|
| Whether, and to what extent, the Programme strategy and focus as set out in the 2007 Operational Programme document is still relevant to the socio-economic circumstances of London and is consistent with other strategies in the region. | 1 |
| The progress which the Programme is making toward achieving the objectives set out in the Operational Programme including the relationship and coherence of the Programme Priority Axis. | 2 |
| The progress towards commitment of ERDF funds and achievement of Programme indicators (outputs and results) including any issues relating to deliverability, particularly in light of the current socio-economic circumstances. | 3 |
| The quality and effectiveness of the Programme's implementation and management including the identification of any best practice and/or weaknesses in systems or processes. | 4 |
| The learning that can be taken forward as good practice for a new 2014-20 ERDF Programme in London. | 5 |

[1] Sterling values based on the most recent pound to euro exchange rate and may vary

### Key Finding 1: an effective Operational Programme in terms of Strategy

iv. Since the Operational Programme (OP) strategy was first developed and agreed (in 2007) there have been significant changes to the socio-economic circumstances of London (with the impact of the unforeseen recession) and to the policy context at both a national and regional level. In spite of these changes, we consider that the Programme remains relevant to London and consistent with wider UK and EU-level policy changes. The Programme strategy has allowed sufficient flexibility to adapt to these changing circumstances in an effective way.

v. The changes in regional institutional architecture that have occurred since 2010 have had less impact than in other parts of England. The reduction in public funding, although a serious challenge, has been less acute in London, because the Programme relied far less on Regional Development Agency match funding than other ERDF programmes. The Programme Strategy has a good fit to the current London economic development strategy.

### Key Finding 2: implementation and delivery has largely progressed as planned

vi. The implementation and delivery of the London 2007-2013 Programme has largely progressed as planned via five open bidding rounds. The projects which have been supported under the Programme have generally been a good fit with the priorities and objectives set out in the Operational Programme strategy document. However, the relatively small average size of projects and lack of a more "top down" or central strategic push has led to a larger number of smaller projects than might have been desirable, increasing management costs per project. Also, in some instances, the open bidding approach has led to areas of the Programme where there is the potential for duplication and overlap between projects and associated delivery bodies.

vii. One issue that has arisen partly as a result of the changes in economic climate and associated facts such as the credit crunch has been that business support projects have tended to shift from a specialist focus on innovation or investment readiness to more general business support. In the future a stronger focus on and clarity around the "market failure" rationale for ERDF support would help.

viii. Under Priority 3 the focus has evolved from what was originally envisaged (for a number of good reasons), although the activity supported does fit within the range of eligible activities. When the Programme was written the precise scale and focus of the JESSICA fund was not agreed and has since evolved. This has meant that in practice Priority 3 activity has not focused on directly supporting businesses, rather the focus has been on the provision of more sustainable energy sources, sustainable premises and locations.

### Key Finding 3A: the Programme is making strong progress in committing funds

ix. The London ERDF 2007-2013 Programme has made excellent progress towards its spend targets (considerably better progress than many other ERDF programmes in England). The Programme's N+2 targets have been reached for 2012 and it is on track to reach the 2013 target. This is largely due to the investment in JESSICA but also reflects good progress on commitment and spend across the board. If all current pipeline projects go ahead, there will be only be around £11 million available under the current Programme (which should be spent by December 2015). Given progress to date it is reasonable to expect that the remaining funds will be committed before the end of the Programme. A key risk however is JESSICA. Whilst this is treated as committed spend (since two UDFs have been contracted) in reality the vast majority of funding is yet to be committed to project delivery.

### Key Finding 3B: the Programme is making reasonable progress in achieving Programme targets

x. Overall, there has been good progress towards Programme output targets. Progress, in common with other ERDF programmes, has been slower in relation to delivery of the jobs results targets. The ability to achieve the jobs results targets (both new jobs created and jobs safeguarded) has been significantly impacted by the recession. We also consider that some of the targets were overly ambitious at the start, whilst the evidence requirements set by the London ERDF team have been particularly stringent. We make a number of recommendations about revisions to the Programme targets to better reflect the pattern of activities actually funded and to take account of the practical issues of delivery of results brought about by the changed economic circumstances.

### Key Finding 4: EPMU has provided strong Programme management

xi. The evaluators consider that the management by the European Programme Management Unit (EPMU) has been strong. This is particularly evident in the Programme's progress towards its spend targets and the low error rate. There have been far fewer criticisms of delays in the appraisal and approval process than in most other ERDF programmes reviewed by the evaluators. Those concerns raised by projects relating to consistency of advice on ERDF technical issues and delays in payments caused by claims checking are problems that have been systemic in all ERDF programmes we have reviewed.

xii. The EPMU team is widely regarded as external stakeholders as a 'safe pair of hands' and they have often gone beyond requirements set by DCLG and the European Commission. Nevertheless, a number of improvements have been identified (and highlighted as recommendations below) which could ensure that the Programme delivers a greater impact in the future.

### Key Finding 5: there are a number of lessons and examples of good practice which can inform the 2014-20 ERDF Programme in London

xiii. The evaluation has identified a series of lessons and recommendations which can inform the future Programme. Some examples of best practice include the following:

- The Programme has ensured that its systems and processes are in line with others (for example the Programme adopted MCIS at an early stage despite this not being a requirement). Furthermore, EPMU has ensured that London has been closely involved in the standardisation process being led by DCLG (despite this not being a requirement) to ensure that there is consistency of systems and processes and to ensure that thorough systems are in place.

- The Programme has supported a number of good projects which have built on existing success and which respond to the needs of the London economy. These include: some of the access to finance projects (including Investment Readiness and the recently contracted VCLF project); innovation support using specialist organisations; as well as the Ravensbourne Eco-Incubator.

- A gap analysis has been carried out following every bidding round and this has ensured that there has been good coverage of projects supported across a broad range of priorities and actions.

- The establishment of JESSICA under the current Programme is a significant achievement (although ensuring its successful delivery is also one of the greatest risks to the Programme going forward) and London has been able to share its lessons with other areas setting up similar funds.

# Recommendations

## Programme Level Recommendations

xiv. Despite the good progress to date, this evaluation has identified a number of recommendations for consideration by EPMU and the Local Management Committee (LMC). The key recommendations are summarised below.

### Programme Strategy

#### A. Current Programme

1) Programme Strategy Recommendation 1: no major changes to the overall Operational Programme 2007-2013 Strategy suggested except re-wording of the text in Priority 3 to better reflect the actual activity supported

#### B. Future Programme

2) Programme Strategy Recommendation 2: depending on funding available and future overall policy steer from the European Commission and from UK Government, broadly retain the strategy focus with some exceptions

3) Programme Strategy Recommendation 3: move to a more strategic approach to allocating ERDF such as commissioning

4) Programme Strategy Recommendation 4: start planning for the 2014-20 Programme now, focusing on early stage discussions with DCLG, BIS, European Commission, GLA and the LMC

## Programme Spend and Targets

### A. Current Programme

1) Programme Spend and Targets Recommendation 1: focus remaining spend on projects which can be delivered within the timeframes and which contribute to achieving sustainable economic growth

2) Programme Spend and Targets Recommendation 2: revise the financial target for Experimental Projects from 2% to 0.8%

3) Programme Spend and Targets Recommendation 3: revise the match-funding targets for private and public spend

4) Programme Spend and Targets Recommendation 4: revise Programme targets (see Priority level recommendations)

### B. Future Programme

5) Programme Spend and Targets Recommendation 5: reduce the number of Programme Targets, removing those which are surplus to requirements

6) Programme Spend and Targets Recommendation 6: place stronger emphasis on achieving targets especially results and impacts

7) Programme Spend and Targets Recommendation 7: explore the potential for the use of co-financing to support future project delivery

## Governance

### A. Future Programme

8) Governance Recommendation 1: explore opportunities for the GLA to become a Managing Authority

9) Governance Recommendation 2: consider alternative structures for the LMC that include a smaller sub-group meeting more regularly to focus on Programme performance

10) Governance Recommendation 3: consider opportunities for the LMC to become more influential

11) Governance Recommendation 4: ensure that there are stronger links between EPMU and the GLA whilst maintaining levels of transparency

## Systems and Processes

12) Management Recommendation 1: ensure that contracts for approved projects are completed more swiftly (whilst maintaining levels of rigour)

13) Management Recommendation 2: where possible, provide more post-contract support to projects during the delivery phase

14) Management Recommendation 3: ensure that there is greater consistency in advice across project managers

15) Management Recommendation 4: review requirements for the collection of evidence and provide stronger levels of support to projects

16) Management Recommendation 5: reduce the time taken to process claims

17) Management Recommendation 6: EPMU should seek to hold monitoring visits (especially Article 13 monitoring visits) earlier in the project delivery lifecycle

18) Management Recommendation 7: EPMU should work with DCLG where possible to ensure that there is a strong understanding of audit requirements, systems and processes and that this is communicated correctly to projects (not an issue if a Managing Authority)

19) Management Recommendation 8: ensure that changes to the Programme are communicated to projects in a timely and effective manner

### Cross-Cutting Themes

#### A. Current Programme

20) Cross-Cutting Themes Recommendation 1: reduce CCT reporting burden on Projects

#### B. Future Programme

21) Cross-Cutting Themes Recommendation 2: consider whether reporting against CCTs is required

22) Cross-Cutting Themes Recommendation 3: integrate CCTs into MCIS and potentially provide stronger reporting

## Priority Level Recommendations

### Priority 1

#### A. Current Programme

23) Priority 1 Recommendation 1: focus any under spend on experienced delivery partners delivering specialist projects

24) Priority 1 Recommendation 2: revise targets and sub-targets for Priority 1 to ensure that they are achievable

#### B. Future Programme

25) Priority 1 Recommendation 3: focus on contracting projects delivered by specialists with a proven track record

26) Priority 1 Recommendation 4: provide a clearer steer and definition for innovation projects

27) Priority 1 Recommendation 5: reassessment of actions under Themes 1 and 2 with a

view to merging some areas

28) Priority 1 Recommendation 6: greater strategic overview in project approval to reduce duplication

29) Priority 1 Recommendation 7: focus on contracting larger projects but with fewer delivery partners

30) Priority 1 Recommendation 8: review of targets with a view to reducing the number of targets under Priority 1

31) Priority 1 Recommendation 9: incorporate best practice from the current Programme into future ERDF Programmes in London

## Priority 2

### A. Current and Future Programme

32) Priority 2 Recommendation 1: focus remaining Priority 2 resources on projects which are deliverable within the timescales and which can lead to long lasting economic benefits

33) Priority 2 Recommendation 2: revise targets under Priority 2 to reflect delivery to date and possible future projects

34) Priority 2 Recommendation 3: reduce the number of targets under Priority 2

35) Priority 2 Recommendation 4: reduce duplication and ensure that projects are more joined up

36) Priority 2 Recommendation 5: ensure that there is a strong market failure argument for remaining projects which are supported

37) Priority 2 Recommendation 6: incorporate best practice from the current Programme into future ERDF Programmes in London

## Priority 3

### A. Current Programme

38) Priority 3 Recommendation 1: focus any additional funding on low carbon demonstrators

39) Priority 3 Recommendation 2: rewrite elements of Priority 3 to reflect focus of delivery to date

40) Priority 3 Recommendation 3: influence future focus of the London Green Fund including monitoring existing UDFs and assessing the pipeline of viable and fundable projects under the third UDF

41) Priority 3 Recommendation 4: revise targets under Priority 3

### B. Future Programme

42) Priority 3 Recommendation 5: define a smaller number of targets which better reflect activities delivered under Priority 3 and consider bespoke targets for JESSICA

43) Priority 3 Recommendation 6: consider greater flexibility in terms of geography (i.e. to serve functional economic area) for Priority 3 projects

44) Priority 3 Recommendation 7: consider feasibility of providing match-funding at project level rather than fund level for JESSICA

45) Priority 3 Recommendation 8: Clarify the relationship between JESSICA funds and UK Green Investment Bank

46) Priority 3 Recommendation 9: Incorporate best practice from the current Programme into future ERDF Programmes in London

## Priority 4

### A. Current and Future Programme

47) Priority 4 Recommendation 1: vire £1.8m of Priority 4 funds into Priority 3 to meet the current shortfall of funding

48) Priority 4 Recommendation 2: consider the potential to use remaining funds to inform the future Programme.

# 2. Introduction

2.1 Regeneris Consulting was commissioned by the European Management Unit (EPMU) at the Greater London Authority (GLA) to carry out an interim evaluation of the London ERDF 2007-13 Operational Programme. The specific study objectives are to assess:

- Whether, and to what extent, the Programme strategy and focus as set out in the 2007 Operational Programme document is still relevant to the socio-economic circumstances of London and is consistent with other strategies for the region;
- The progress which the Programme is making toward achieving the objectives set out in the Operational Programme including the relationship and coherence of the Programme Priority Axis;
- The progress towards commitment of ERDF funds and achievement of Programme indicators (outputs and results) including any issues relating to deliverability, particularly in light of the current socio-economic circumstances.
- The quality and effectiveness of the Programme's implementation and management including the identification of any best practice and/or weaknesses in systems or processes.
- The learning that can be taken forward as good practice for a new 2014-20 ERDF Programme in London.

## Our Approach

2.2 The key stages of work which has informed this evaluation are summarised below.

| Stage | Activities |
|---|---|
| Scoping | • Scoping Consultations with EPMU to understand the Programme and to inform the remainder of the evaluation<br>• A review of key documents about the Programme such as the Operational Programme document and other guidance |
| Relevance and consistency of strategy | • Review of the key socio-economic and policy changes which may have impacted on the delivery of the Programme<br>• Consultations with strategic consultees who have been involved in the development of the Programme or who have had strategic insight such as members of the Local Management Committee (LMC) |
| Review of Programme Progress | • 20 project reviews, involving discussions with project managers from projects supported by ERDF funding to understand their fit with the overall Programme objectives and opportunities to improve the Programme<br>• A detailed review of the JESSICA Green Fund<br>• Review of project evaluations for projects supported by ERDF |
| Review of outputs and results | • Assessment of outputs, results and spend for the Programme<br>• Detailed review of progress against the cross-cutting themes |
| Review of implementation and management | • Assessment of systems and processes which are in place to support ERDF<br>• Assessment of management and government arrangements |

## Report Structure

2.3 The draft final report is structured as follows:

- Section 2: Programme Strategy review, which considers the key socio-economic and policy changes which have impacted upon the Programme and the extent to which the Programme strategy is still relevant.
- Section 3: Review of Programme Performance: provides an overview of how the Programme has performed including progress against spend, outputs and results.
- Section 4: Review of Priority 1, provides an overview of what has been delivered under Priority 1 of the ERDF Programme and the progress towards Programme objectives.
- Section 5: Review of Priority 2, provides an overview of what has been delivered under Priority 2 of the ERDF Programme and the progress towards Programme objectives.
- Section 6: Review of Priority 3 and JESSICA, provides an overview of what has been delivered under Priority 3 of the ERDF Programme and the progress towards Programme objectives.
- Section 7: Review of Priority 4: provides a brief overview of delivery under Priority 4 (Technical Assistance)
- Section 8: Review of Cross-Cutting Themes: provides an assessment of the Programme's progress in delivering the cross-cutting themes of environmental sustainability and equal opportunities.
- Section 9: Review of Programme Implementation and Management: provides an assessment of how successfully the Programme has been delivered and what could be improved.

# 3. Programme Strategy Review

## Summary of Programme Strategy

### Strategic Framework

3.1 The London ERDF Programme is worth €181 million or £146.6 million in total. The **vision** for the London ERDF Operational Programme is to promote sustainable, environmentally efficient growth, capitalising on London's innovation and knowledge resources with a focus on promoting social inclusion through extending economic opportunities to communities, in areas where this is most needed.

3.2 The investment strategy was constructed around four Priority Axis (priorities) to which Programme resources were allocated. The table below summarises the priorities, their related objectives and forecast allocation of ERDF Programme resources.

**Table 3-1 London ERDF Operational Programme Priorities, Objectives and Allocations**

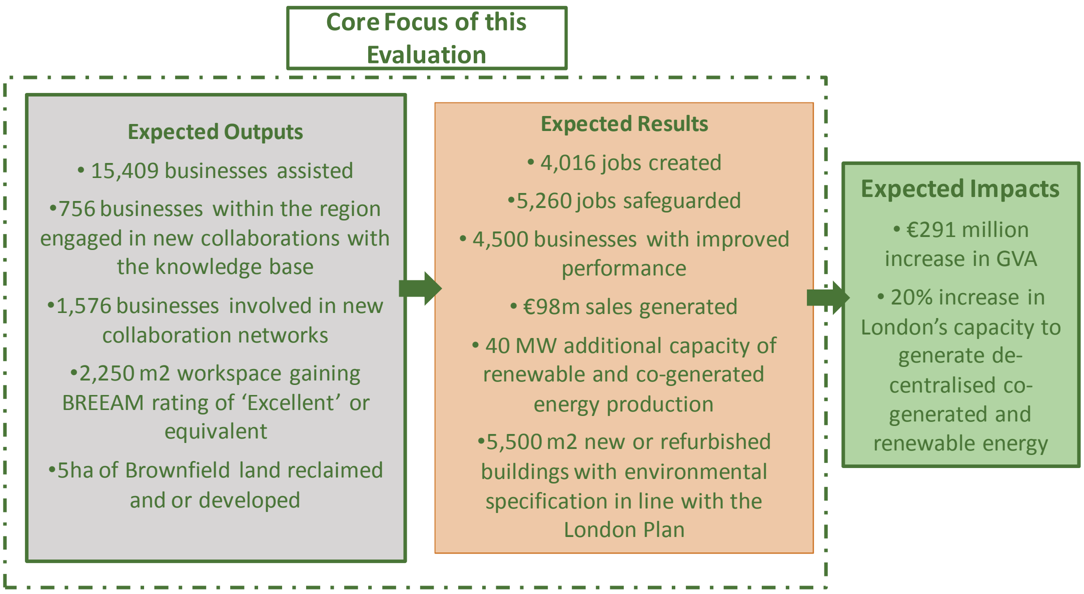
| Priority | Objectives | Allocation |
|---|---|---|
| Priority 1: Business innovation and research & promoting eco-efficiency | • Improve the capacity of London's businesses, particularly its SME's to innovate through developing new products, processes and services, leading to increased growth, competitiveness and improved environmental performance | £40.3 million<br>27% of total |
| Priority 2: Access to new markets and access to finance | • Address the strategic barriers to growth faces by SMEs and entrepreneurs in understanding and accessing new markets (particularly in rapidly growing emerging markets), building on London's strong global links, and in raising finances and developing start-ups, including for environmental improvement<br>• Draw upon experience gained in previous projects to develop exports, sustainable procurement, and SME access to supply chains | £41.8 million<br>29% of total |
| Priority 3: Sustainable places for businesses | • Encourage sustainable growth in small and medium size enterprises within economically and socially deprived areas of London so as to help secure their long-term regeneration<br>• Support development of high quality working environments and low/zero carbon employment sites and premises within attractive environments<br>• Encourage clusters of businesses, particularly green businesses, such as those supported under Priority 1 and 2 and on demonstration projects to reduce the carbon footprint of businesses and encourage wider take-up of sustainable practices. | £58.6 million<br>40% of total |
| Priority 4: Technical Assistance | • Support and enhance the management of the London Operational Programme | £5.9 million<br>4% of total |

| | | |
|---|---|---|
| | • Strengthen the implementation of the London ERDF Operational Programme Priorities | |
| Allocations based on an exchange rate of €1=£0.80 as at June 2012 | | |

## Programme Targets

3.3 Specific output, results and impact targets have been set for each of the Programme's Priorities. These are summarised below for the Programme as a whole. The core focus of this evaluation is to understand the Programme's progress towards outputs and results, though any indication of progress towards impacts would also be beneficial.

**Figure 3-1: Summary of Programme Targets**




Source: Operational Programme

# Changing Socio-Economic Context

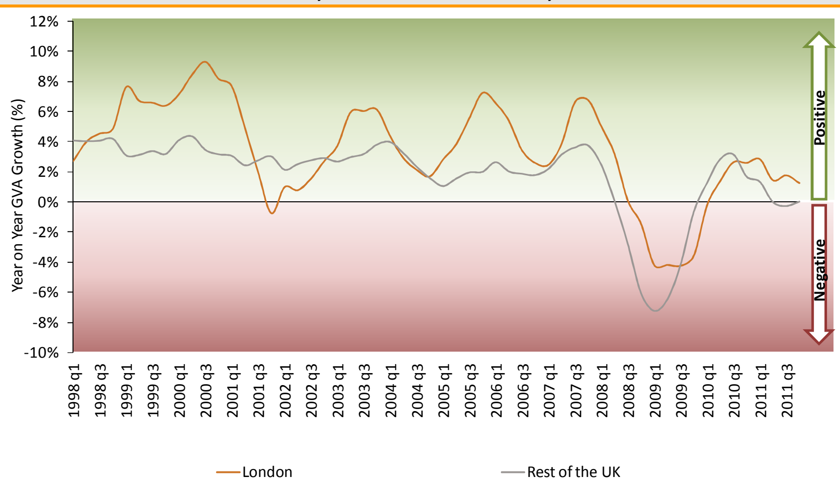
## Economic Overview

3.4 London is a region of diverse socio-economic characteristics. With its two global financial centres London is positioned at the heart of the UK economy. Yet the region also contains some of the most deprived localities found nationally. Contrasts are found at all scales – from the very local level (for example high unemployment levels found in localities immediately adjacent to Canary Wharf), to the Borough level (for example Newham is classified as one of the most deprived local authorities nationally; Richmond one of the least), to the sub regional level (for example, clear differences exist in the social and economic characteristics of Inner and Outer London Boroughs).

3.5 Since 2008, the UK has experienced a prolonged economic downturn. After initial signs of slow recovery, the UK re-entered recession at the start of 2012. As such, the effects of the downturn – including sub-optimal business performance and unemployment – continue to persist throughout the country. The Bank of England has recently (August 2012) cut its economic growth forecast for 2012 to close to zero. This is a reduction from 2% predicted a year ago (and 0.8% predicted in May 2012). This highlights the fact that recovery is expected to be a protracted process, particularly in the context of the Eurozone Fiscal Crisis.

3.6 As highlighted by the measures of economic performance in **Figure 3-2** and **Figure 3-3**, London has not escaped the impacts of the economic downturn. After averaging strong economic growth throughout the early and mid-2000s, London experienced a sharp recession in late 2008. Despite this, London's economic performance over the past decade has typically been stronger than average nationally. The region enjoyed higher economic growth pre-recession, entered the recession later and experienced a shallower recessionary trough. Current figures also suggest that London has avoided (to date) the double dip recession experienced at the UK level at the end of 2011 / start of 2012. All these trends both reflect and reinforce London's important economic position nationally and globally.

**Figure 3-2: Year on Year Growth in GVA, London and the UK, 1998-2011**

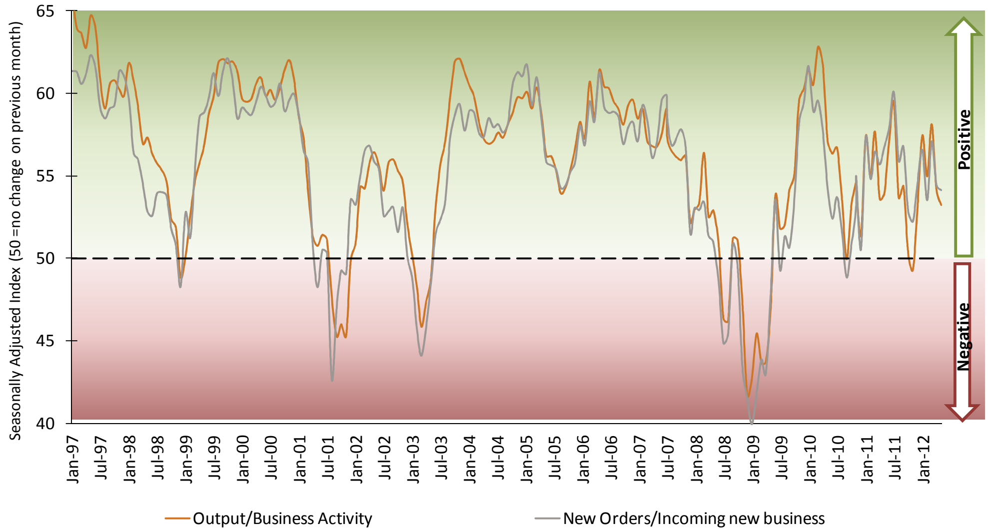



Source: Based on Experian data provided to the GLA

**Figure 3-3: Headline Economic Performance**

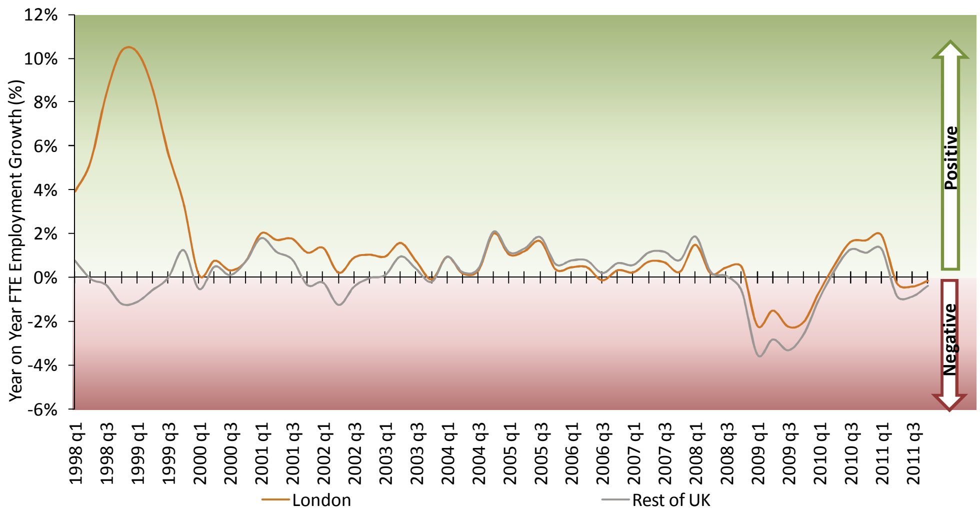
**London and UK Business Activity and New Orders Performance, 1997-2012**

*....activity fell sharply in 2008 but has been recovering*



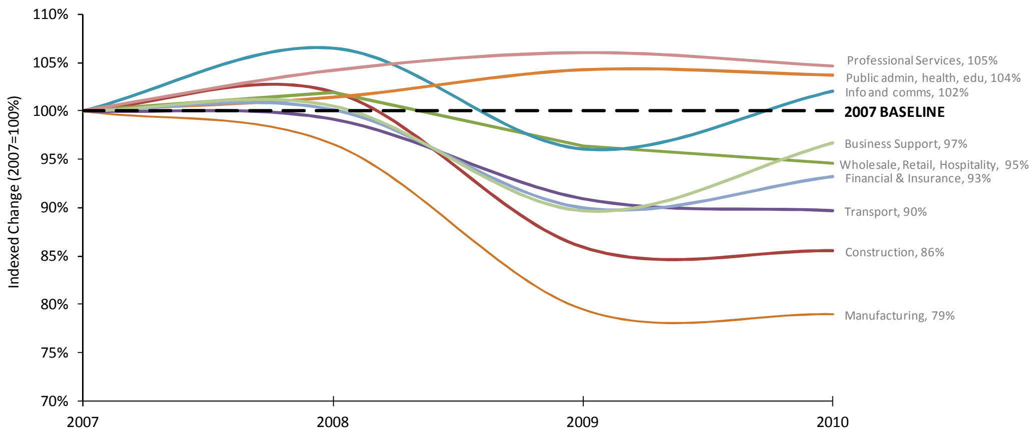

**Year on Year FTE Employment Change, London and the UK, 1998-2011**

*...London has outperformed the UK in recent years, but recovery is slow*




**Sectoral Employment Change in London, 2007-2010**

*...job losses particularly severe in manufacturing and construction; professional services most robust*




Source: Output and New Orders (Top) based upon Markit Economics data provided to the GLA; Employment (Middle) based on Experian data provided to the GLA; Sectoral Employment based on BRES Data

3.7 London has typically performed well economically since the Operational Programme was developed. In the period since the London 2007-2013 Operational Programme was developed, the region has experienced increasing levels of productivity (GVA per employee), an increasing business base and increasing level of skills in the workforce. Performance is particularly strong when compared to that of the 8 other English regions and the national average. Areas where performance has weakened include the total quantum of workforce jobs in London and unemployment amongst the resident labour market – indicators likely to relate directly to the economic downturn.

**Table 3-2: Key Regional Indicators – London Operational Programme Overall Objective and Cross Cutting Themes**

| Indicator | Baseline-Update | Baseline | Update | Change | Change vs UK | Comparative Position | Implications for Op Programme |
|---|---|---|---|---|---|---|---|
| GVA (£ millions) | 2005-2010 | £223,045 | £274,085 | • Total: +23%<br>• *05-08, av. +7% per annum;*<br>• *08-10, av +1% per annum* | +6.4% points (05-10) | Accounts for 21% of UK GVA – a share which has increased since 2005. Largest contribution to the UK economy amongst all regions by some margin. The majority of GVA growth achieved pre 2008, with little GVA growth per annum post 2008 | London has performed comparatively well since 2005– despite relatively low GVA growth per annum since 2008. London's strengths in knowledge and high value added sectors is likely to have driven this performance and so supporting these will remain important going forward |
| GVA per Employee | 2005-2010 | £54,900 | £68,400 | +24.6% | +5.1% | Highest productivity in the UK, with GVA per capita at 117% of the UK average (a figure which has increased since 2005). Again majority of productivity growth achieved pre 2008 | |
| Working. Age (W.A) Population | 2005-2010 | 5.01 mil | 5.22 mil | +4.1% | +1.4% | Accounts for 14% of UK population; most populous of all England regions | The working age population and workforce jobs have increased since 2005. However, in the context of the downturn, job creation remains an important target in responding to the needs of a growing population. Strong performance by London's business base is one strength on which to build in this respect |
| Number of Workforce Jobs (000s) | Mar 2005-Mar 2012 | 4,624 | 5,030 | +9.3% | +6.9% points | London contains around 19% of all jobs in England and more jobs than any other region | |
| Number of Businesses | 2005-2010 | 359,800 | 403,100 | +12% | +6.8% | London has outperformed the UK average and that of all UK regions. London also outperforms other UK regions in terms of business density | |
| Employment Rate | 2005-2011 | 68.4% | 68.0% | -0.4% points | +3.3 % points | Remains below the UK average (70%), but the gap has narrowed. Has improved ranking amongst nine English regions from 9th (bottom) to 6th | Whilst London's labour market has performed more robustly than the UK in recent years, levels of unemployment have increased. Again, a focus on job creation – particularly in those parts of London suffering from weakest labour market performance – is more relevant than ever in attempting to mitigate the labour market impacts of the ongoing economic downturn |
| % of W,.A pop economically inactive | 2005-2011 | 26.3% | 25.0% | -1.3% points | -2.1% points | Economic inactivity remains above the UK average (24%), but the gap has narrowed. Improved ranking amongst 9 English regions from 2rd highest economic inactivity rate to 4th highest | |
| Claimant Count Rate | 2005-2012 | 3.2% | 4.2% | 1.0% points | -0.7% points | The claimant count rate remains above UK average. It now has a middle ranking performance among 9 English regions, where previously performance was the weakest | |
| % with No Qualifications | 2005-2011 | 14.1% | 9.3% | -4.8% points | -1.1% points | Performs more strongly than the UK average and has third strongest performance amongst 9 English regions | The skills base of London's labour market has shown strong improvement in recent years. Continuing this trend going forward will be important in maintaining and strengthening London's ability to support high value added firms and sectors and ultimately in helping the overall economy to grow |
| % with NVQ Level Qualification Level 4+ | 2005-2011 | 33.8% | 45.9% | 12.1% points | +5.8% points | Continues to perform above the UK average (33%) and continues to rank first (strongest) out of the nine regions | |
| Median gross weekly workforce wage (£) | 2005-2011 | £556 | £651 | +17.1% | +1.0% | Highest average earnings nationally, and 130% of the UK average (a figure which has increased in recent years) | |

Sources: Working Age Population – NOMIS; GVA – ONS, No. of Workforce – Annual Population Survey; Median Wage – ASHE, All other data – Annual Population Survey

3.8 Activity in the London 2007-2013 Operational Programme is spread across four priority areas. London's performance in relation to these priority areas is considered briefly in the following sections.

## Priority 1: Business innovation & research and promoting eco-efficiency

3.9 London's economy is characterised by high levels of knowledge intensive activity – the proportion of employment which is classified as being knowledge intensive (40.5%) is the highest of all the nine English regions and significantly higher than the UK average. Despite this, London performs below the UK average against a range of indicators in the UK Innovation Survey (conducted every two years by BIS) – including the proportion of firms which are innovation active, the percentage of business expenditure which is on R&D and the patent application rate.

3.10 Since the development of the London 2007-2013 Operational Programme, the region's performance against these indicators has been mixed. The proportion of knowledge intensive jobs has increased, and at a faster rate than average nationally. Whilst the proportion of high tech manufacturing employment (as a proportion of all manufacturing employment) has decreased, it has done so at a slower rate than average nationally. The proportion of innovation active firms have also decreased (compared to no change nationally), whilst the proportion of business expenditure on R&D has also declined (at a time when there was an increase nationally). Whilst there has been an increase in the rate of Patent Applications, the rate of increase has been slower than nationally.

3.11 A report by GLA Economics[2] has previously highlighted the apparent paradox between London's high levels of productivity, high skills levels and high knowledge intensive activity and its apparent underperformance against a range of innovation indicators. Part of the explanation can be found in the regions industrial structure. For example, the region has a larger than average service sector – a sector in which innovation type activities are acknowledged to be difficult to measure. In contrast, the region has lower levels of activity in sectors such as manufacturing which are more likely to be reflected in traditional measure of innovation. Indeed, away from the quantitative data, evidence on the ground suggests that London is continuing to develop globally renowned clusters of activity in knowledge and innovation intensive service sectors – such as creative sectors in the City Fringe and digital sectors around Shoreditch / Old Street.

[2] GLA Economics (2007) Working Paper 19 – Innovation in London

**Table 3-3: Priority 1 Performance Indicators: Business innovation and research and promoting eco-efficiency**

| Indicator | Dates (Baseline - Update) | Baseline | Update | Change Over Time | Net of UK Change | Comparative Position | Implications for Operational Programme |
|---|---|---|---|---|---|---|---|
| Knowledge Based Industry Employment as a % of Total | 2007-2010 | 39.1% | 40.5% | +1.4% points | +0.8% points | London performs above the national average (32%) and strongest all of the 9 English regions | London's strong knowledge economy is central to its position at the core of the UK economy. Helping the knowledge economy to strengthen going forward – including ensuring a strong labour market and providing a supportive environment for high growth businesses / sectors – will be key to helping London to counter the impact of the economic downturn and return to strong growth |
| High Tech Manufacturing Employment (as % of all manufacturing) | 2007-2010 | 19.2% | 16.4% | -2.8% points | 2.4% points | London performs below the national average (24%) and 7 of the 9 English regions | |
| Business Expenditure on R&D | 2006-2010 | £962 million | £902 million | -6.2% | -17 % points | London businesses currently contributes around 6% of all UK business expenditure on R&D – a decrease from 2006 and lower than many of the English regions | Innovation and research is an important element of the knowledge economy. Whilst London displays weaker than average performance against core indicators of innovation, this is likely to partly reflect the service orientated nature of London's economy. Nonetheless, a continuing focus on supporting innovation and research activity in London will clearly be important in driving growth in the economy going forward. Examples such as Old Street and the mooted Tech City highlight that clusters of innovative firms are emerging on the ground despite challenging the economic context. These represent clear strengths on which to build |
| Innovation Active Firms as % of Total | 2009-2011 | 36% | 28% | -8% points | 0% points | London performs below the UK average (28%) and ranks 7th out of 9 English regions in terms of innovation active firms. | |
| Patent Applications per 100,000 Residents | 2007-2011 | 6.2 | 7.7 | +1.5 patents per 100,000 | -0.9 patents per 100,000 | London now performs below the London average after below average growth in recent years. Ranks 5th out of 9 regions (previously 4th) | |

Sources: High Tech and Knowledge Employment – BRES; Expenditure on R&D –BIS; Innovation Active Firms – Community Innovation Survey (BIS); Patent Applications – Intellectual Property Office

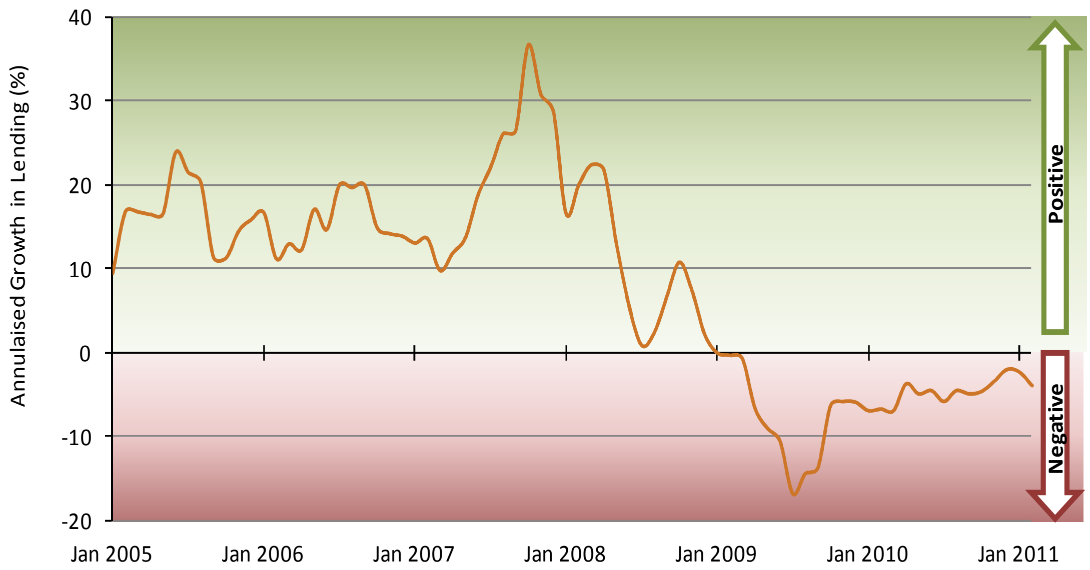
## Priority 2: Access to new markets and access to finance

3.12 The focus for Priority 2 is upon barriers to business growth such as entering new markets and access to finance.

3.13 The economic downturn has had clear implications for business performance in London. Whilst the total business stock in the region has increased since 2005, many other indicators of performance highlight the challenges that businesses in London are currently facing. Levels of business start-up have fallen (although to a lesser extent than average nationally), whilst that rate of business closure has increased (again, although to a lesser than average nationally) and the overall rate of 1 year business survivals has fallen (at a rate faster than average nationally).

3.14 Many of these trends represent the fact that some of the core challenges to businesses – including access to finance and new markets – persist, and in some cases have worsened in the context of the economic downturn. Whilst the total value of exports in London has increased since 2005, it has done so at a slower rate than average nationally. The count of exporters in London has also declined by over 10%. One of the biggest impacts of the economic downturn has been that of reduced lending by banks – and associated impacts in terms of access to finance for businesses. As highlighted by **Figure** 3-4, lending to businesses declined significantly at the start of the economic downturn and recovery continues to be slow.

**Figure 3-4: Net Growth in Lending to UK Businesses**




Source: Bank of England Lending Trends, 2012

**Table 3-4 Priority 2 Performance Indicators –Access to new markets and access to finance**

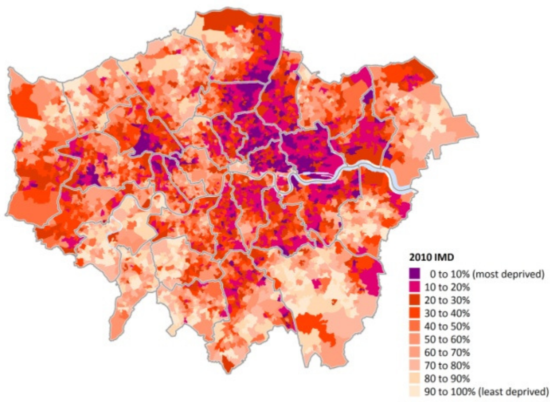
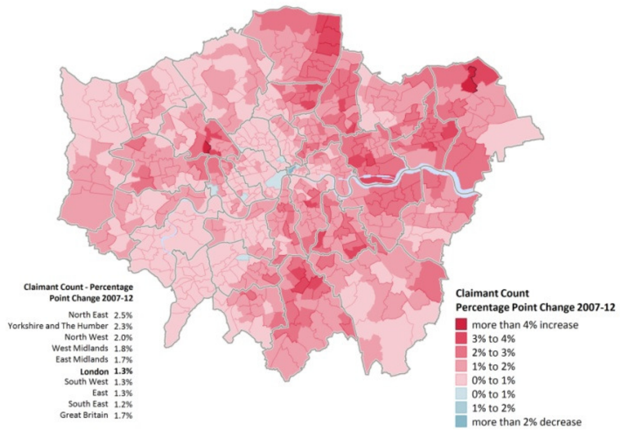
| Indicator | Dates (Baseline - Update) | Baseline | Update | Change Over Time | Net of UK Change | Comparative Position | Implications for Operational Programme |
|---|---|---|---|---|---|---|---|
| Stock of Active Enterprises | 2005-2010 | 359,800 | 403,100 | +12% | +6.8% | London has outperformed the UK average and that of all UK regions. London also outperforms other UK regions in terms of business density | The range of core indicators of displayed to the left highlight the challenging environment in which small businesses are operating. Whilst London's overall stock of businesses has increased, the rate of business start ups and rate of new businesses survival has declined. Given that SMEs are responsible for a high proportion of employment in London, helping to provide a supportive environment for business and enterprise clearly remains an important focus going forward. |
| Business Births (No = actual number; Rate = number per 10,000 population) | 2005-2010 | No: 51,300<br>Rate: 68.5 | No: 52,800<br>Rate: 67.4 | No: +2.9%<br>Rate: -1.1 | No: +17%<br>Rate: +6.8 births | London outperforms the UK average and all UK regions (both in terms of number of start ups and recent change). | |
| Business Deaths (No = actual number; Rate = number per 10,000 population) | 2005-2010 | No: 43,900<br>Rate: 58.7 | No: 60,300<br>Rate: 7 | No: +37%<br>Rate: +18.4 | No: +7%<br>Rate: +8.5 | The rate of business deaths is significantly higher than in any other region and the UK average. | |
| Business survival rates | 2005-2010 | 1yr: 95.9%<br>2 yr: 78.3%<br>3 yr: 61.2% | 1yr: 88.3%<br>2yr: 68.6%<br>3yr: 59.5% | 1yr: -7.6% points<br>2yr: -9.7% points<br>3yr: -1.7% points | 1yr: -2.5 % points<br>2 yr: -3.9% points<br>3yr: 0% points | Survival rates are now below the national average and all English regions | |
| % in employment who are self employed - aged 16-64 | 2005-2011 | 15.4% | 15.5% | +0.1% points | -0.6 % points | London performs above the national average (13%) and performs strongest of the 9 English regions | |
| Value of Exports (£m) | 2005-2011 | £26,400 | £35,200 | +34% | - 6 % points | London accounts for 11.9% of all UK exports (a slight decrease in proportion from 2005). This is the second highest proportion amongst the 9 English regions | The economic downturn has clearly reinforced two of the main barriers to enterprise and SME growth – access to new markets and access to finance. These barriers are often underpinned by wider economic influences (eg. lending by banks; the strength of global markets). However, at a local level, there is clearly scope for continuing focus to be placed on supporting SMEs striving to overcome these barriers |
| Count of Regional Exporters | 2005-2011 | 15,100 | 13,400 | -11% | -5 % points | London accounts for 19% of all UK exporters (a slight decrease in proportion from 2005). This is the highest proportion amongst the 9 English regions | |
| Source: Active Enterprises, Business Births, Business Deaths, and Business Survival rates – Business Demography by ONS; Self Employment – APS; Exports – HM Revenue and Customs (www.uktradeinfo.com) | | | | | | | |

## Priority 3: Sustainable places for business

3.15 The focus for Priority 3 is on economic development in deprived areas, through supporting the development of high-quality working environments and low carbon employment sites.

3.16 The diverse socio-economic geography of London is highlighted in **Figure 3-5,** which illustrates that in addition to relatively affluent areas, the region contains significant concentrations of severe relative multiple deprivation. Indeed, of the 10% most deprived local authorities nationally, a third are in London. **Figure 3-5** also highlights that whilst the unemployment rate has increased almost universally across London since 2007, there is a broad correlation between those areas suffering higher levels of deprivation and those areas which have experienced the highest unemployment increases. Clearly, therefore the characteristics driving the place focused theme of Priority 3 remain relevant.

**Figure 3-5: London – Local Socio-Economic Characteristics**

| Indices of Multiple Deprivation, 2010 | % Point Change in Unemployment Rate 2007-2012 |
|---|---|
|  |  |





Source: Left – Indices of Multiple Deprivation 2010, DCLG; Right – JSA Claimant Count, DWP

3.17 The impacts of the economic downturn on the construction industry in the UK has been severe. This has obvious consequences for Priority 3, with its focus upon the development of high-quality working environments and low/zero carbon employment sites and premises. The table overleaf highlights that against several commercial property indicators, London has achieved more robust performance than many other areas in the UK in recent years. However, the London commercial property market has still weakened appreciably during the economic downturn. A GLA Economics report[3] notes that after rising rapidly up to 2007, investment levels in commercial property in London declined, with many developments put on hold. Whilst the recovery has been slow, the GLA note that from 2010, there were signs of strengthening in the market. However, the brief decline in investment levels were anticipated to result in a shortage of commercial space in London in the short term, before increasing investment levels help to alleviate this in the medium term.

3.18 Despite the economic downturn, London has improved its performance against a number of green indicators in recent years. Innovas research suggests that London has the largest share of the UK Low Carbon market, and that the value of this market has been increasing. The region has also improved its overall performance in terms of emissions – albeit at a slower

[3] GLA Economics (2010) Central London office market through the recession

rate than average nationally. Whilst London has performed well against these high level environmental measures, the impact of the downturn at individual business level is more unclear. Research in 2010 by Lloyds TSB Commercial, for example, found that around 30% of SMEs polled had stalled the implementation of energy-efficient improvements because of the economic downturn. This highlights the clear challenges which exist going forward in relation to green agenda, particularly given that SMEs account for nearly half of business energy usage.

**Table 3-5: Priority 3 Indicators – Sustainable places for business**

| Indicator | Baseline - Update | Baseline | Update | Change Over Time | Net of UK Change | Comparative Position | Implications for Operational Programme |
|---|---|---|---|---|---|---|---|
| % of areas in the 10% most deprived nationally | 2007 - 2010 | 15% | 12% | -80 LSOAs | n/a | Whilst London has improved its comparative position nationally in recent years, significant concentrations of relative multiple deprivation remain in London – of the 10% most deprived LAs nationally, a third are in London | Local socio-economic disparities in London persist – to some extent exacerbated by the economic downturn. Efforts to support / drive economic performance in the most deprived localities – particularly around enterprise and skills – remains more important than ever |
| Claimant Count Rate | 2005-2012 | 3.2% | 4.2% | 1.0% points | -0.7% points | The claimant count remains above the UK average. It now has a middle ranking performance among 9 English regions, where previously performance was weakest of the 9 | |
| % of localities in top unemployment decile nationally from London | 2005-2011 | 17.3% | 6.7% | -10.6 % points | n/a | Whilst overall unemployment has increased in London in recent years, the comparative position against other regions in the UK has improved | |
| Derelict Land (Ha) | 2005-2009 | 800 hectares | 1,250 hectares | +56 % | -65% points | London accounts for only small share of derelict land in England (4%), but this share has increased since 2005 | Whilst London has performed better than other areas, the economic downturn has constrained activity in the construction sector. As market conditions improve, opportunities are likely to become stronger for the Programme to achieve lasting impacts through local infrastructure improvements |
| All New Construction Orders (£ m) | 2005 - 2011 | £9,500 | £10,500 | +10.9% | +41 % points | Despite a decline in new orders during the recession, London has increased its share of construction orders from 11% to 23% of GB total. | |
| Planning Decisions | 2007-2011 | 20,000 | 20,000 | 0% | +15% points | London has a similar number of planning decisions granted in 2011 compared to 2007 – a period during which the quantum in all other regions has decreased | |
| Value of Low Carbon Market | 2007-2010 | £21,100 | £23,000m | 9% | n/a | London has a 19% share of UK market – the largest share of any UK region. The sector has 9,200 companies & 160,000 employees | Whilst London has improved overall environmental performance, some evidence suggests that the economic context has set back environmental improvements at the business level. Clearly, as economic conditions improve, a renewed focus will be important in ensuring a bottom (business) up approach to achieving lasting environmental improvements (and benefits) for London |
| Per Capita Emissions | 2005-2009 | 6.3 kt co2 | 5.5 kt co2 | -13% | -18 % points | Average emissions per capita in London are below the national average (7.4 kt co2), although the gap has narrowed in recent years | |
| Commercial & Industrial Energy Consumption | 2005-2009 | 20,400 kt co2 | 18,800 kt co2 | -8% | -3 % points | London contributes 9% of national commercial & industrial emissions– increase in proportion since 2005. | |

Sources: Derelicts Land and Planning Decisions – DCLG; Construction Orders – ONS; Unemployment – JSA Claimant Count; Green Market – Innovas Research for GLA; Emissions - DECC

# Assessment of Overall Programme Strategy

## Overview

3.19 The period from 2007 to 2012 has been marked by major changes to the economic, policy and funding context for ERDF Programmes. These changes have thoroughly tested the flexibility, relevance and consistency of the Programme strategy. Even as the Programme got underway, there were important policy changes at both the European and UK levels.

### Europe

3.20 The key changes at a European level are summarised below:

- **European Union's Lisbon Agenda.** The EU's key policy on innovation enterprise was a driver for the ERDF Competitiveness Programmes. It aimed at developing more competitive knowledge-based economies and to provide a focus in ERDF on business support and innovation. Its most tangible impact on the Programme was to set a minimum threshold (75%) for Programme investment to be compliant with a list of indicators which translated the Lisbon agenda into specific types of activities. The Lisbon compliance of the London Programme is assessed in this evaluation report.
- **European Union's Economic Recovery Programme**. Launched in 2008, this initiative resulted in agreement that a proportion of ERDF Programme funding should be allocated to activities which directly responded to recessionary conditions (eg. weakness or failure of commercial property markets). This enabled investments to be made in housing, public realm and land remediation, which is in line with some Priority 3 activities.
- **Europe 2020 strategy**. Launched in 2010, the Europe 2020 strategy updated the Lisbon agenda and put increased emphasis on EU wide action to tackle climate change and lower carbon emissions. There is a stronger emphasis on smart, sustainable and inclusive growth which is very much in line with the focus and objectives of the London ERDF 2007-13 Programme.

### National

3.21 There were a number of changes at a national level prior to the 2010 election. However following on from this there have been even greater changes which have impacted upon the Programme. These have been challenging and the London ERDF Programme has demonstrated that it has been able to adapt well to these changes.

### Changes Pre-2010 Election

- **Business Support Simplification Process and Solutions for Business**. This national initiative sought to improve targeting of and access to business support by reducing the number of different schemes to a limited portfolio of products under the Solutions for Business banner. The Solutions for Business Programme was devised after the Operational Programme was drafted and some but not all of the activities supported by the London ERDF Programme comply with the portfolio. This has not significantly impacted on the London ERDF Programme. The bidding prospectus for the London ERDF Programme has been updated to indicate which activities are in line with Solutions for Business and have indicated that projects can only support one of the activities within the portfolio.

- **Innovation Nation**. The previous UK Government's White Paper set out a broad framework of themes for UK innovation challenges and the need for UK business to invest more, engage with the knowledge base more and become better at integrating innovation into the management of their businesses. The Higher Ambitions proposals (2009) to strengthen higher education reinforced this policy drive to better harness the knowledge base to the needs of the UK economy (higher skills, more innovative enterprises).

- **Equalities Act**. This key piece of legislation required equality to be treated as an integral consideration in mainstream policy formulation, workforce issues and service design and delivery, and accords closely with the Equal Opportunities cross-cutting theme.

### Changes Post 2010 Election

- **Local Growth White Paper:** a wide ranging and more substantial set of policy and funding changes emerged after the 2010 UK General Election, with the key changes set out in the Government's white paper:

  - **A shift away from regionalism with the abolition of RDAs**: as a result of a shift away from regional government, Regional Development Agencies were abolished. The London Development Agency (LDA) entered a close down phase throughout 2011. EPMU which managed the London ERDF Programme then moved across to the Greater London Authority. This impacted upon only a small number of projects under Priority 1 and Priority 2 which were match-funded through the LDAs Single Pot when this ceased. The LDA's funding was never closely aligned to the London ERDF Programme which turned out to be positive when RDAs were abolished.

  - **A stronger emphasis on localism**: there are stronger aspirations around moving power away from regional organisations towards local groups including the third sector. A number of Local Enterprise Partnerships (LEPs) have been created including a London LEP and a Coast to Capital LEP which includes Croydon. For a number of reasons (including lack of funding attached to these and a lack of clarity around their roles), these LEPs have not really engaged in the London Programme to date.

- **Sustained reductions in public sector funding**: the Government announced £6.3 billion cross-government savings for 2010-11, with reductions through 2011-12 and 2012-13. This has had a significant impact on the extent to which the public sector can provide match-funding to support ERDF funded projects across all priorities. This is set out in more detail later in the report.

## Regional

3.22 The **Mayors Economic Development Strategy** was published in 2010 and set out a vision for London to be the best big city in the world. Up to 2031, London should excel among global cities, expanding its opportunities for all its people and enterprises, achieving the highest environmental standards and quality of life and leading the world in its approach to tackling the urban challenges of the 21st century, particularly climate change. There are five objectives, four of these are particularly relevant to the London ERDF Programme:

- To ensure that London has the most competitive business environment in the world. This is particularly relevant to Priority 2 activities and there is a particular emphasis on removing barriers to growth.
- To make London one of the world's leading low carbon capitals by 2025 and a global leader in carbon finance. This is particularly relevant to Priority 3 activities and subsequent related strategies demonstrate the increased emphasis on this area.
- To give all Londoners the opportunity to take part in London's economic success, access sustainable employment and progress in their careers. This is relevant to the entire Programme and particularly relevant to Priority 3.
- To attract the investment in infrastructure and regeneration which London needs to maximise the benefits is particularly relevant to Priority 3.

3.23 There are a number of cross-cutting themes which are also relevant e.g. innovation; equality of opportunity and diversity; sustainable development and environmental improvement; and, climate change adaption and mitigation.

3.24 The vision set out in the **Mayor's London Plan** aligns with the Economic Development Strategy. Six detailed objectives support this vision:

- 'A city that meets the challenges of economic and population growth' and 'an internationally competitive and successful city with a strong and diverse economy benefitting all of London' aligns with the Programme overall.
- 'A city of diverse, strong, secure and accessible neighbourhoods' and a city that delights the senses and takes care over its buildings and streets' is particularly aligned to Priority 3 activities.
- Other objectives such as 'a city that becomes a world leader in improving the environment' and 'a city where it is easy, safe and convenient for everyone to access jobs, opportunities and facilities' align with the Programme overall.

## Assessment of Programme Strategy by Priority

### Priority 1

3.25 The strategic focus on Priority 1 remains in line with policy and there has been little divergence from the main areas of policy since the time of the Programme's conception:

- There has been greater emphasis placed on innovation and knowledge collaboration, with the government committing an additional £150 million per year to support university-business collaboration, as set out in the Innovation and Research Strategy for Growth (December 2011).

- Funding via BIS and the Technology Strategy Board has a national focus as opposed to regional. While this has not had an immediate effect on the delivery of the Programme there is scope to explore the opportunities this presents for the future.

- The green economy has continued to remain important, especially in terms of funding and capital projects but this also reflects the continuing importance of environmental innovation.

- The Mayors Economic Development Strategy and London Plan support innovation and environmental objectives. Within the Economic Development Strategy, innovation is a cross cutting theme and is central to London's competitiveness. The focus will be on encouraging collaboration across sectors, promoting more productive links across business and academia, providing support for innovative activities, fostering entrepreneurial skills and helping to access finance. The Mayor will promote London's research base and encourage greater commercialisation of low carbon products and processes

## Priority 2

3.26 There have been a number of changes to the strategic landscape which have impacted on the delivery of Priority 2 activities and these are described below:

- Significant changes to funding and delivery of business support. This includes BIS taking in-house (or via arm's length bodies such as UKTI and TSB) the future design and co-ordination of Lisbon type business support (for example sectors, innovation, trade and inward investment). In addition, the face to face Business Link service has been replaced by a national call centre and website. Under the future Programme therefore, there will be less face to face business support available. Cuts in government funding has already impacted on the business support landscape in London. Whilst at the start of this Programme, there were a larger number of organisations providing business support, there are now fewer.

- The Local Growth White Paper and the Growth Review have placed significant emphasis on the private sector to drive the economy and secure sustainable economic growth. It will ensure that the conditions for growth exist and has identified a number of reforms in areas which act as barriers to enterprise. The government focus is on providing support for SMEs and on supporting high growth firms.

- The Government is providing a particular emphasis on supporting high growth firms to access finance, particularly in the light of the recession. The Government is helping to increase finance available for firms through loan guarantee schemes, equity finance schemes and business angel co-investment funds.

- 'Britain Open for Business: Growth through International Trade' is UKTIs five year strategy to promote growth through trade (and investment). The focus is on targeting services at high growth SMEs to encourage more companies to export and to help existing exporters reach more high growth markets. An export finance scheme is also available, providing support where this is not available through the private sector.

- The Mayors Economic Development Strategy and London Plan support the focus of Priority 2. The second objective which focused on promoting a competitive business environment is particularly relevant. The Mayor will oversee a comprehensive internal trade strategy to increase London's exports, particularly in rapidly developing markets such as India and China. There is also a focus on supporting access to finance for low carbon projects.

## Priority 3

3.27 The key objective of Priority 3 is to support sustainable economic growth in London's Regeneration and Opportunity areas (as defined by the London Plan) by contributing to the development of high quality working environments and investing in environmentally sustainable infrastructure such as low/zero carbon systems. The context and rationale for supporting such activities were set out in the Operational Programme:

- The Stern Review illustrated that the market failure case for government intervention to manage environmental issues is strong. There is therefore a role for Government to seek to co-ordinate behaviour and change incentives in order to achieve a better overall outcome for society.

- As a densely populated city, London's environment is under considerable pressure and it faces significant challenges going into the future, as projected economic and population growth exerts further pressure on already strained resources.

- The estimated ecological footprint per London resident is 6.63 global hectares per capita (gha), which is three times the global 'earthshare' target of 2.18 gha per person – the per-person target for living within the ecological capacity of the earth.

- The Mayor has set targets requiring that by 2025 at least 50% of London's electricity and 30% of its heat demand be met through decentralised energy technologies.

- Excluding aviation, London's emissions are 44 million tonnes of CO2, representing 8 per cent of total UK emissions. Given the growth rates projected in the London Plan and assuming 'business as usual', rather than additional active CO2 reduction, London's emissions will increase to 86 million tonnes by 2025. Consequently, the Mayor has committed London to a target of achieving reductions in emissions by 2025 to a level that will be 60% below 1990 levels.

- London's municipal waste makes up about a quarter of the total waste produced each year, and the other three quarters is made up of commercial, industrial, construction and demolition waste.

3.28 Since the publication of the Operational Programme policy in London has reinforced the rationale for Priority 3. Most significantly the GLA has published the Climate Change Adaptation Strategy (2010) and the Climate Change Mitigation and Energy Strategy (2011). The former identified mitigating flood risk as the one of the key priorities for London and provided a commitment to provide practical assistance for SMEs who are particularly vulnerable.

3.29 The Climate Change Mitigation and Energy Strategy outlined the importance of London maximising the economic opportunities associated with the transition to low carbon economies. It suggests that the city should aim to exceed government targets in relation to CO2 reduction and should secure more reliable energy for London.

3.30 In addition to the policy focus on low carbon activities and energy the position in relation to opportunities has been impacted by changes in policy. Most notably, the closure of the London Thames Gateway Development Corporation in 2012 has arguably led to a decrease in focus on the London Riverside area. The prioritisation of Royal Docks as London's first Enterprise Zone will also have an impact on investment decisions which could provide opportunities and challenges for projects funded through Priority 3

## The 2014-20 Programme

3.31 In October 2011, the European Commission presented its legislative proposals for cohesion policy for 2014-20. The proposals are currently the subject of negotiation with the Council of the European Union and the European Parliament. Most of the detail of the management and size of the funds are still to be resolved. The negotiations will not conclude until the discussions on the overall EU budget are concluded. Once EU Member states agree on the overall budget for Structural Funds and on the allocations per country, each Member State then has to decide how to allocate the funding internally and how Programmes should be managed.

3.32 For the new programming period, the Commission has proposed a €336bn budget for investments (including ERDF and ESF) across all 27 Member States and their regions. All regions will receive funding in relation to three categories. London falls within the 'more developed regions' category i.e. regions with more than 90% of EU average GDP per capita. The overall budget for these regions is currently estimated to be around €53.1 billion.

3.33 It is currently proposed that 80% of ERDF funding will be earmarked to the following thematic priorities (which are very similar to those of the current London ERDF Programme):

- Strengthening research, technological development and innovation
- Enhancing the competitiveness of small and medium sized enterprises
- Supporting the shift towards a low carbon economy in all sectors

3.34 Detailed Programme development will begin once the UK's Partnerships Contract has been agreed. DCLG indicated that this process should begin in September 2012 and look to conclude as regards agreement of Programmes with the European Commission by June 2013. The final half of 2013 will be spent fine-tuning administrative and partnership arrangements and the formal adoption of Programmes by the European Commission in readiness for 'go live' in January 2014.

## Conclusions

### Summary and Implications for Programme

3.35 A summary of the key changes which have impacted on the London ERDF 2007-2013 Programme and an assessment of how well the Programme has responded to these is provided below. It is clear that the Programme has responded well to the challenges which have existed. It is also clear that the overall focus of the Operational Programme remains highly relevant in the light of socio-economic and policy changes.

**Table 3-6 Summary and Implications of socio-economic and policy changes**

| Priority | Key Changes | Implications for Operational Programme |
|---|---|---|
| Overall Strategy Focus | • Onset of recession in 2008. London has performed well across a number of indicators compared to other regions.<br>• Abolition of RDAs and the transfer of EPMU to the GLA. | • The Programme has responded well to the changes which have occurred over this period.<br>• The strategy is still broadly relevant but there is a stronger emphasis on growth and job creation |
| Priority Axis 1 | • London's strong knowledge economy has helped the region to weather the impacts of the economic downturn more robustly than other areas of the UK, though some indicators suggesting weakening of innovation and knowledge performance<br>• A number of notable clusters of innovative activity are emerging<br>• There is a stronger policy emphasis on innovation and knowledge collaboration | • Helping the knowledge economy to strengthen further will be key to helping London to counter the impact of the economic downturn and return to strong growth<br>• The focus of Priority 1 is still clearly very relevant and in line with policy changes. |
| Priority Axis 2 | • Significant changes to business support landscape.<br>• The downturn has had a significant impact on business performance, with low (or declining) levels of growth in business output and new orders and declines in access to finance<br>• Levels of enterprise have suffered accordingly, with declining business start-up and survival rates<br>• Policy focus on international trade, finance mechanisms (not advice) | • Priority 2 projects have responded well to changes (particularly to business support landscape) but the changes have clearly impacted on performance of projects<br>• Stronger focus on high growth / high value added sectors to weather the downturn and to ultimately providing the driving force for growth across London<br>• Focus of Priority 2 on exporting and access to finance (i.e. direct provision of funds) as well as access to markets is still highly relevant. |
| Priority Axis 3 | • Concentrations of deprivation have persisted and levels of unemployment have increased across London<br>• The property market has suffered a sharp decline during the recession. Whilst there is evidence that the London commercial market is recovered quicker than elsewhere, levels of construction output and activity remain significantly below pre-recession levels<br>• Strong push at a regional level with the climate change adaptation strategy and the climate change mitigation strategy. | • Job creation – particularly in London's more socio-economically deprived locations – is a more important issue than ever.<br>• Supporting the development of quality working environments and low carbon employment sites is at the heart of Priority Axis 3. Whilst acknowledging the constraints presented by market conditions, supporting appropriate development activity in London's weaker performing socio-economic localities clearly remains an important area going forward<br>• The focus remains relevant and particularly in line with a regional push on these policy areas. |

## Recommendations

### Current Programme:

No major changes to the overall Operational Programme Strategy suggested

3.36 The evaluation recommends that significant and substantive changes to the Operational Programme strategy are not needed at this relatively late stage in the Programme. The key changes are explained in more detail at other points in this report and include the following:

- Potentially clarifying the activities supported under Priority 3 so that these better reflect the types of activities which have actually been supported (and are to be supported)
- Virement from Priority 4 into Priority 3 to support key projects (see Priority 3 and Priority 4 sections)
- Revisions to some of the targets (see relevant Priority-level recommendations)

3.37 Other minor changes include revisions to the profile of public versus private match funding and revisions to the profile of experimental projects.

### Potential Future ERDF Programme for London

Depending on funding available and the future overall policy steer from the European Commission and from UK Government, broadly retain the strategy focus with some exceptions

3.38 In the future public resources for investment in the competiveness of the London economy are likely to be very constrained, both from European and UK resources. It is really important that any future ERDF investments are very targeted and there is a clear rationale for their use. This suggests the following broad principles for the future ERDF Programme:

- First, there needs to be a very **clear rationale** for why public money should be invested – either a clear market failure rationale (even in a very successful economy such as London, why the private sector on its own will not deliver the improvement sought) or a very clear equity rationale (supporting target groups that are not benefitting from London's prosperity).
- Second, the Programme needs to avoid the danger of spreading ERDF to thinly, it needs to be **more forensic** in its application (whether by sector, target group, location or technology). This, as we note later, almost certainly would mean not using a pure open bidding process. There are a number of considerations which need to be taken into account if the Programme moves in this direction and these are explored in more detail below.
- Third, the **targets framework needs to be clearly aligned** with the rationale of the Programme. For instance job creation remains an important Mayoral priority but it may be that net new overall job creation in the relatively dynamic London economy is relatively difficult to achieve. Our recommendation is that the targets should focus

on how the jobs are created and who takes them as well as on the quality of jobs created. Similarly, any focus on a lower carbon economy for London needs appropriate targets (CO2 reduction not job creation).

- Finally, given the limited resources available the Programme needs to aim to achieve the **biggest possible impact** of its resources whether in terms of improving the competitiveness of parts of the London economy or in terms of accelerating the move to a low carbon economy.

3.39 The extent to which the above principles would lead to a strategy similar to the current Programme, depends in part on the funding available and wider policy steers from the European Commission and UK Government. It also depends on there being a strong economic development strategy and associated action plan for London, ideally with allocated resources that can be used as ERDF match.

3.40 Our research has identified some further areas for consideration for the future Programme:

- There is potentially a case for extending the scope for ERDF to allow it to support pre-start up phase businesses where there is a market failure rationale and where it is deemed to result in value for money for the Programme. This suggests a focus on either high growth individuals or disadvantaged and under-represented groups. This is in response to socio-economic changes identified earlier (for example a slight increase in the percentage of those in employment who are self-employed) and an identified demand by project delivery organisations.

- The Programme needs to ensure that there is sufficient emphasis on job creation and meeting long term growth, which is very much in line with the current policy focus for economic development

- A broader geographical focus could also be relevant for some activities. Projects which serve London (such as waste or energy projects for example) could be located outside the city. This would help with issues around match-funding in particular and would help to ensure that the needs of residents are met where such projects cannot be delivered in London. It should be the case that these projects should only be supported where there are clear benefits to London residents or to the London economy.

3.41 Additional evidence on the focus which will be relevant to individual priority areas can be found in the relevant sections.

### Move to a more strategic approach to allocating ERDF e.g. commissioning

3.42 It is clear to the evaluators that the current approach to supporting projects which is focused on competitive bidding rounds has led to an unnecessarily large number of projects being supported. This has created a large administrative burden for the Programme and for the EPMU and almost certainly has reduced the potential strategic impact and so overall value for money of the Programme from what it might have been. This was not caused by the design of the Operational Programme per se but its subsequent implementation. A number of other factors have increased the administrative burden of the Programme for EPMU (beyond the number of projects supported) and these are explored under the systems and processes section of the report.

3.43 We recommend that future delivery should be more planned and EPMU should consider a commissioning approach to future bidding rounds. This would allow fewer, larger projects to be supported which respond to a clear London-wide rationale and market failure need. It is important that EPMU works with partners at an early stage (including critically the rest of the GLA) to give due consideration to the types of projects which might be supported and how they can best be delivered effectively (minimising duplication and ensuring that match-funding is in place). In our experience, the most effective use of ERDF occurs where it can be bolted onto and enhance existing delivery structures and Programmes (including potentially those already created by ERDF such as JESSICA).

3.44 There is also a concern that a move towards commissioning could limit innovation from the bottom up, which bidding rounds tend to encourage. It could also potentially reduce input from a broad range of partners which has been a feature of the current Programme. This is an important consideration particularly in the light of the localism agenda which suggests that there should be greater involvement from local individuals, businesses and groups. However, this could be overcome by working with partners at an early stage to ensure that they feel they can input into project design and delivery and by consulting widely on any future Operational Programme document or similar strategy. A further concern stems from the delivery risk in focusing spend on a small number of projects with the achievement of performance indicators reliant on fewer projects. On balance, taking into account all of these considerations we feel that commissioning should be the preferred approach to take.

### Start planning for the 2014-20 Programme now

3.45 Whilst it is still not clear what funding will be available to support a 2014-20 London ERDF Programme or parameters set by UK Government, EPMU should clearly start planning for this Programme now. In particular, discussions will need to be held with the DCLG, the European Commission, BIS and the LMC regarding the embryonic proposals for the GLA to become a Managing Authority. Furthermore, discussions could be held with partner organisations now to discuss: (i) opportunities for co-financing type arrangements; and (ii) possible types of projects which could be supported.

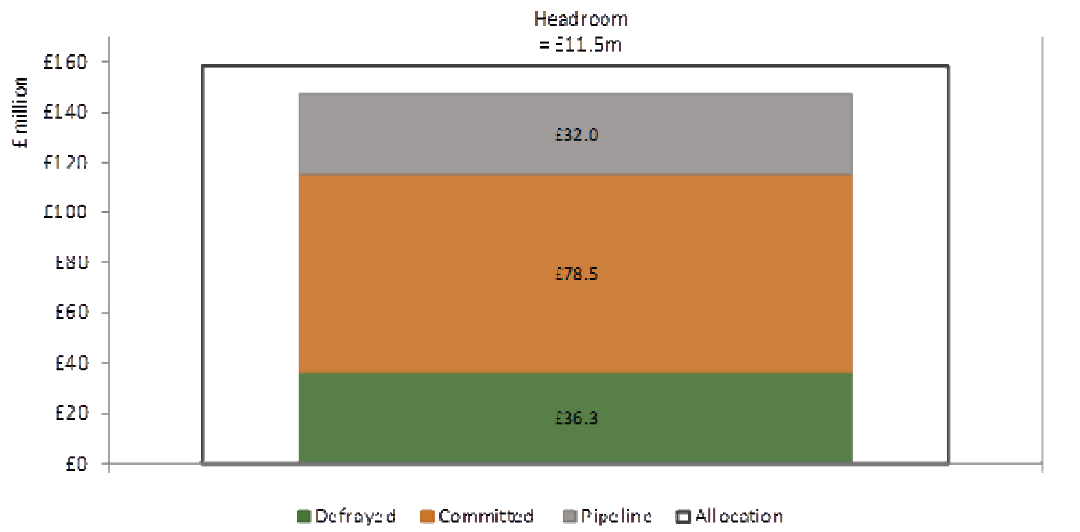
3.46 To date, the London ERDF 2007-2013 Programme and EPMU have not engaged with the two LEPs in London. This largely reflects the lack of funding attached to these and a lack of clarity around their roles in relation to European funding. This situation could however change in the future (either before the 2014 Programme gets underway or after this) and EPMU should monitor the situation closely. If deemed appropriate, EPMU should engage with them regarding their role in the future Programme.

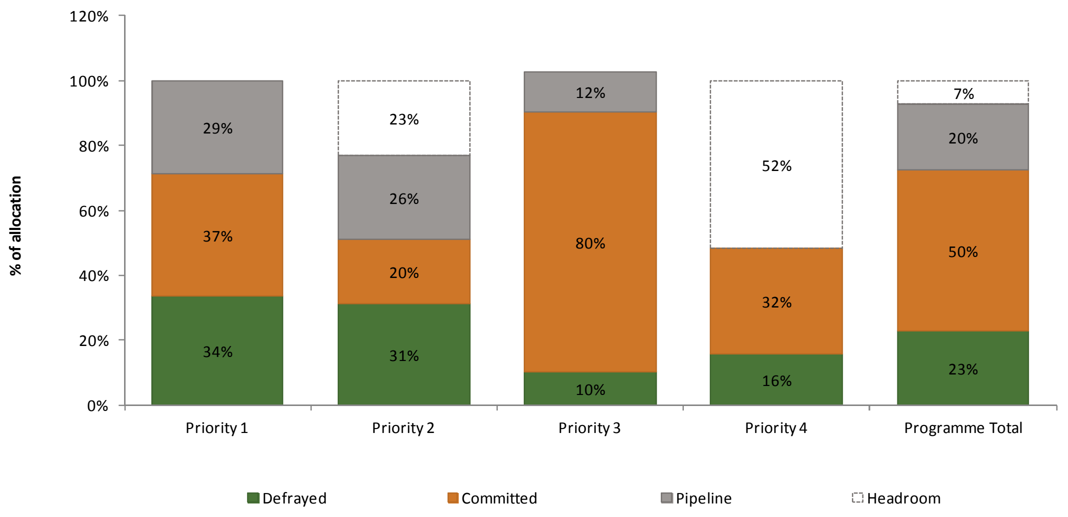
# 4. Review of Programme Performance

## Programme Expenditure

4.1 The London ERDF Programme is making strong progress towards its overall expenditure target, reflecting the strong early progress made on contracting projects and committing funds. At June 2012, 73% of the Programme's allocation has been defrayed or committed and pipeline projects are expected to account for a further 20% of allocated funds. At the time of final reporting (August 2012), a number of the pipeline projects accounting for £32 million are already being contracted (e.g. a £6 million VCLF project under Priority 2) and there is strong certainty that others will come forward.

**Figure 4-1:Overview of Programme Expenditure and Commitments to Date**



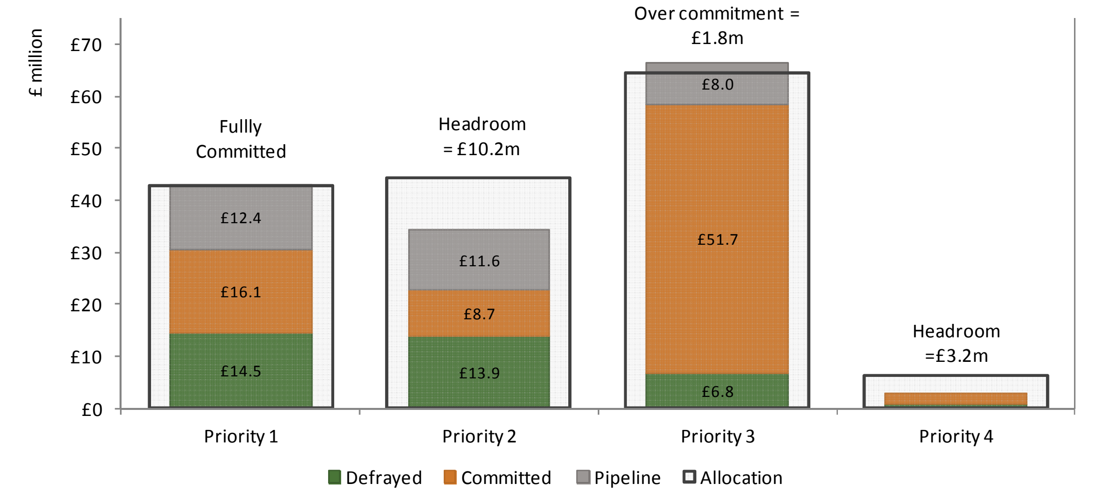




Source: Programme Financial Data, GLA (June, 2012)

4.2 Assuming that committed projects spend as expected and all pipeline projects are contracted, the Programme only needs to contract a further £11.5m (7% of its overall allocation) to be fully committed. Total Programme headroom would rise to 27% (£43.5 million) if pipeline projects were not committed.

4.3 **Figure 4-2** provides a breakdown across the priorities and underlines a marked variation in the performance on expenditure and commitments across the Programme. The headlines on spend for each priority are outlined below.

**Figure 4-2: Overview of Programme Expenditure and Commitments to Date by Priority**




Source: Programme Financial Data, GLA (June, 2012_

## Priority 1

4.4 Priority 1 has made strong progress both in committing and defraying funds and is now fully committed (assuming that the £12.4 million of pipeline projects will be contracted).

## Priority 2

4.5 The majority of headroom within the Programme is in Priority 2, where the 23% headroom equates to £10.2 million (89% of the overall headroom in the Programme). While progress with committing funds has been slower than in other priorities, Priority 2 projects are spending well, with 31% of the priority's allocation already being defrayed.

## Priority 3

4.6 Commitments in Priority 3 have progressed strongly, largely due to the investment of £50 million in the JESSICA fund. Although the priority is overcommitted, defrayed expenditure is lagging with only 10% of the priority's allocation (£6.8m) having been defrayed to date.

## Priority 4

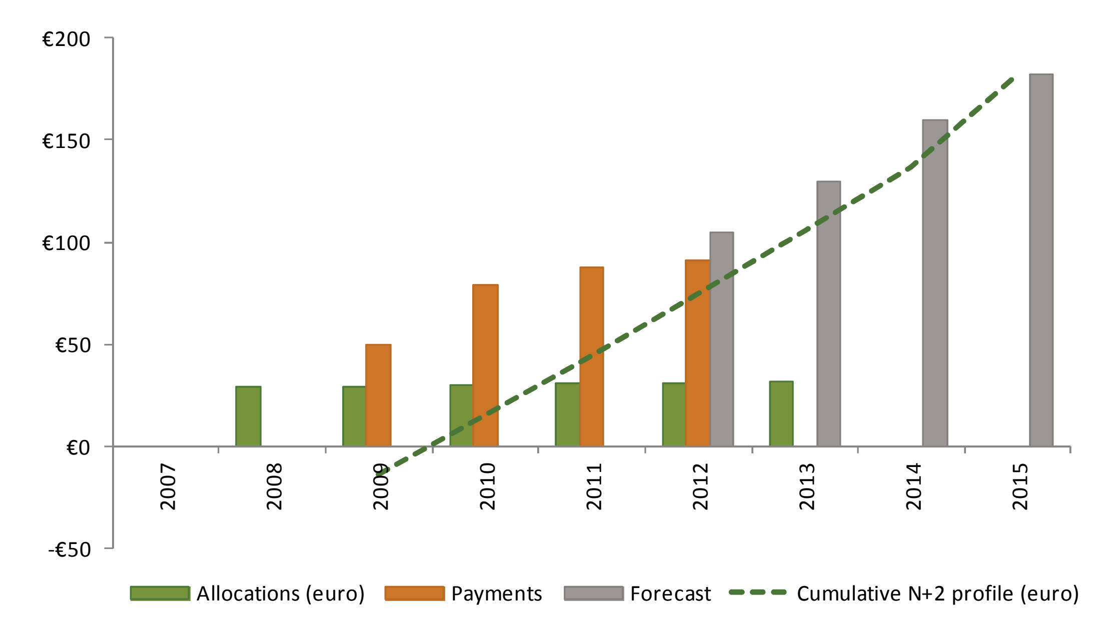
4.7 Although a large proportion of the Priority 4 allocation is currently uncommitted, this equates to a relatively modest £3.2 million headroom.

## N+2 and Programme Contracting Rates

### N+2 Progress

4.8 The Programme is making strong progress towards its N+2 targets as shown in **Figure 4-3**. Based on predicted spend of projects already committed, the Programme is on track to exceed its 2012 N+2 target. Current volatility in global financial market is likely to result in continued exchange rate fluctuations between the Euro and Sterling. This could either reduce or increase headroom in the Programme, which creates uncertainty for the forecasting of N+2 performance and more broadly for future Programme commitments, since allocations could rise or fall considerably in light of changed exchange rates.

**Figure 4-3: N+2 Progress and Forecast**



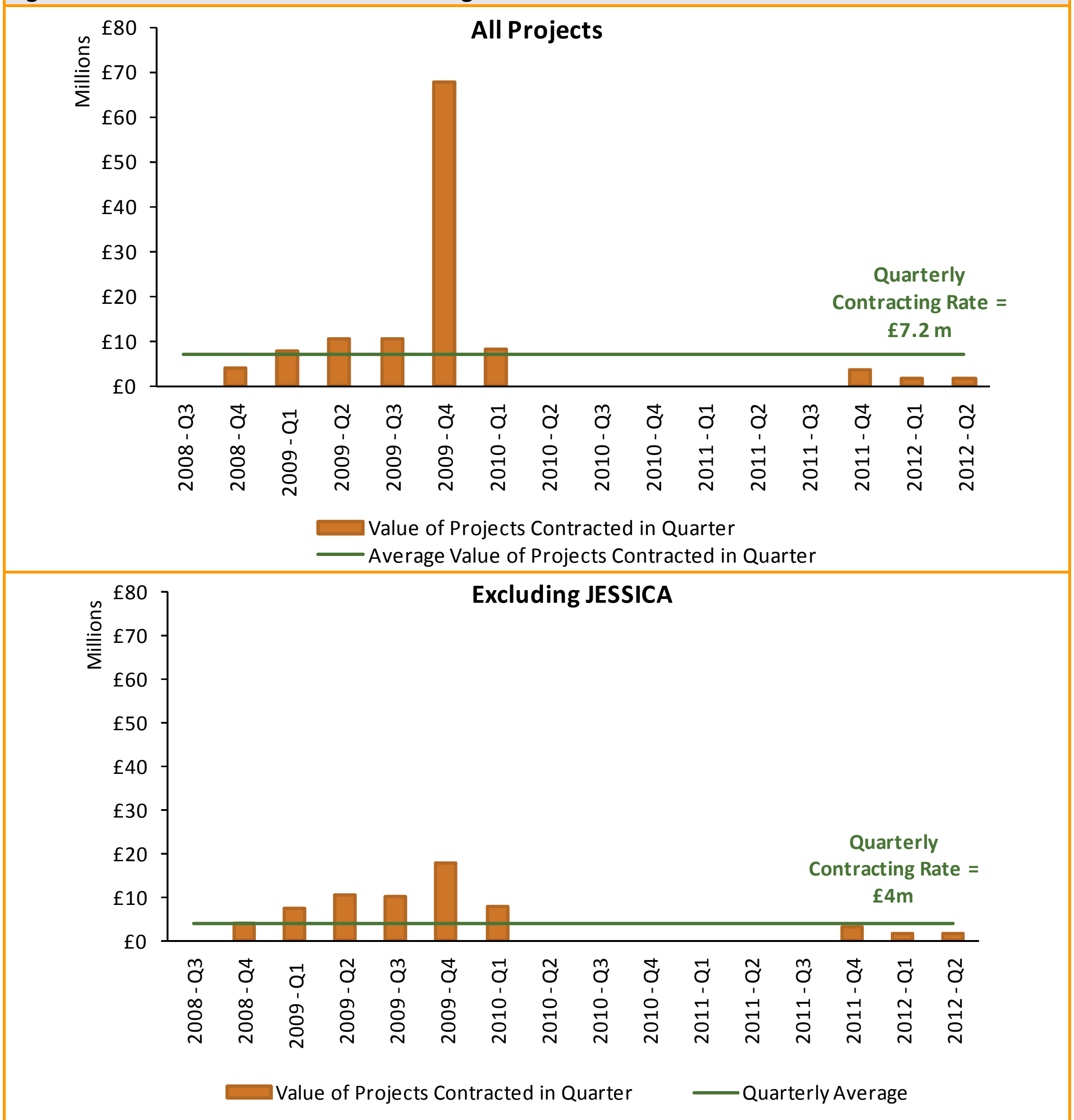

Source: Programme Financial Data, GLA (June 2012)

### Contracting Rates

4.9 The Programme did not set quarterly targets for contracting projects. Nevertheless, the quarterly contracting rates achieved by the Programme to date are highlighted in **Figure 4-4**. Rates of contracting were strong in the early stages of the Programme. Although between Q2 2010 and Q3 2011 no contracts were awarded, contracting related activity and negotiations with applicants continued throughout this period. Despite this, bidding rounds 3 and 4 were carried out over this period which included some contract discussions and negotiations taking place. It should be recognised that bidding rounds were decided by EPMU on the basis of regular gap analysis. Discussions were held with the PMC/LMC and this informed the bidding round process, including the total amount of funding available and the criteria for selecting successful projects.

4.10 Taking all projects into account, an overall contracting rate of £7.2 million per quarter has been achieved. The inclusion of the JESSICA fund in this analysis skews the figures and perhaps presents too positive a picture on contracting rates. If the JESSICA project is excluded, the overall contracting rate for the Programme drops to £4 million per quarter. This rate is more appropriate for forecasting future contracting rates, as it reflects more accurately the normal level of contracting that has been achieved throughout the Programme to date.

**Figure 4-4: Overview of Rates of Contracting**

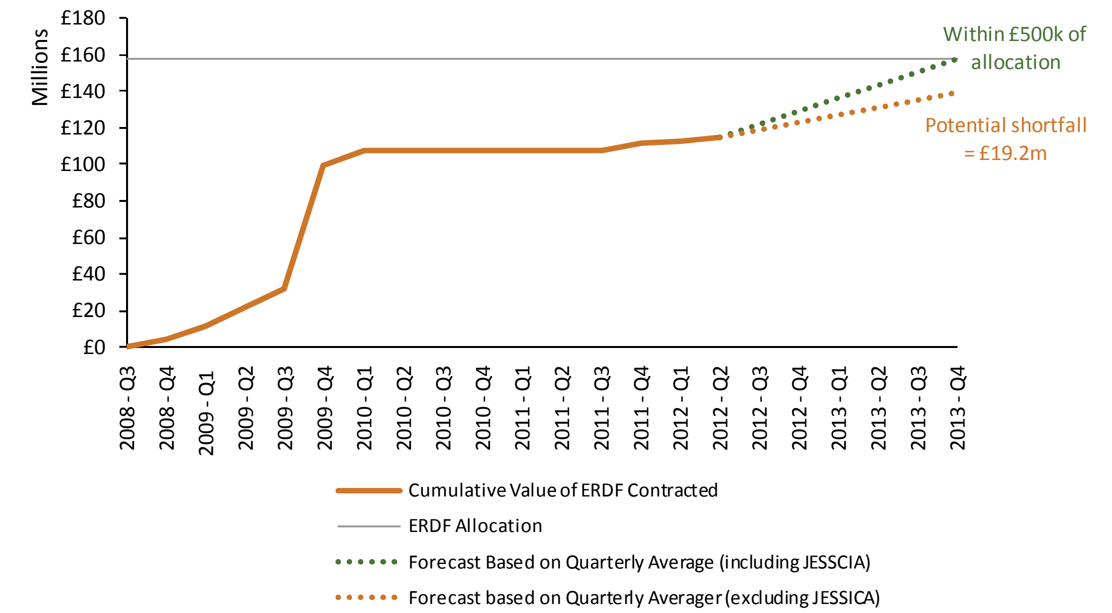



Source: Programme Financial Data, GLA, June, 2012)
Note: This analysis is based on the date when the ERDF funding agreement was signed by the project applicant. In some cases, delivery of project activities and defrayment of funds may have preceded this date.

4.11 The rate at which the Programme is able to convert pipeline projects into contracted expenditure will be a critical factor in determining whether the Programme is able to commit its full allocation and meet its N+2 targets. In the final stages of the Programme, the quarterly contracting rate will need to pick up significantly from the average of £4 million per quarter to ensure that the full Programme allocation is committed.

4.12 If the rate of contracting continues at the current level, there will be a shortfall of £19.2 million. It is worth stating however that strong progress is being made in contracting pipeline projects and so the shortfall is likely to be much lower than this. Nevertheless, EPMU should start to consider how any remaining funding can be spent.

**Figure 4-5: Progress Towards Allocation**

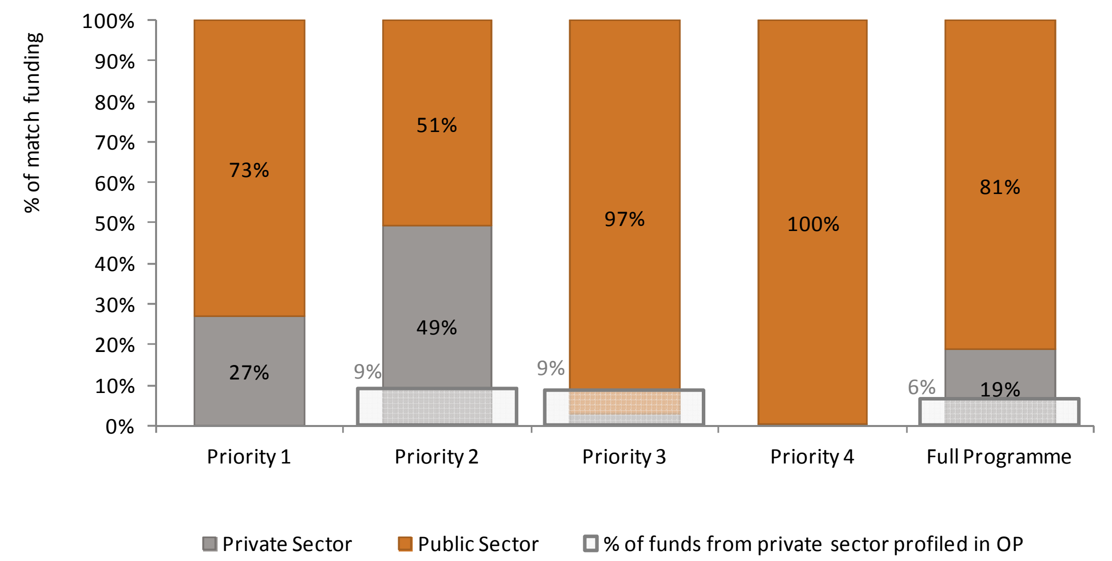



Source: Programme Financial Data, GLA (June, 2012)

## Match Funding

4.13 The Programme has achieved a reasonable balance between public and private sector sources of match funding so far. This split between public and private sector match funding far exceeds the anticipated split which was set out in the Operational Programme. It was expected that across the Programme as a whole, £10 million of private sector match funding would be levered in to the Programme (mostly by projects in Priorities 2 and 3), which would have represented 6% of total Programme match funding. As the chart below shows, the overall level of private sector match funding has far exceeded this, at 19% for the Programme as a whole and reaching almost 50% in Priority 2.

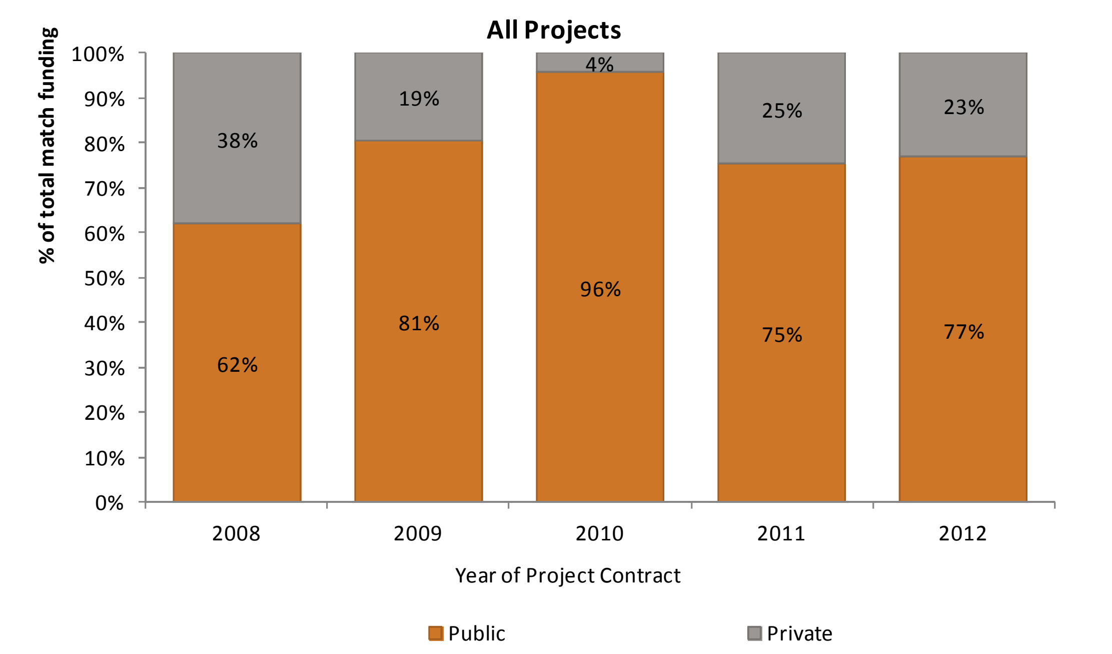
**Figure 4-6: Match Funding Sources**

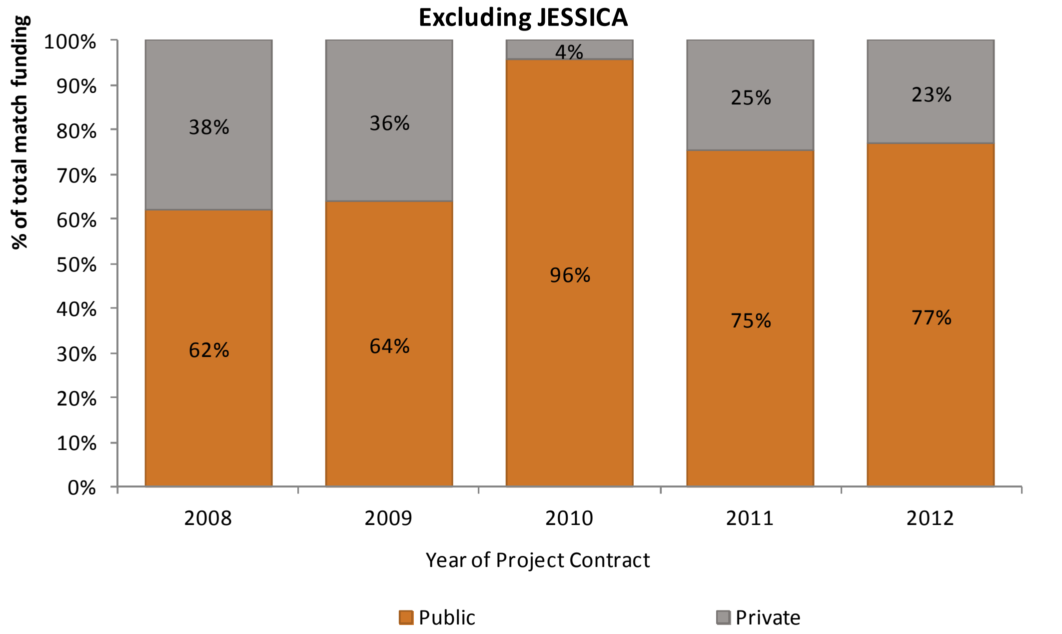



Source: Programme Financial Data, GLA
Note: Match funding data is incomplete for some projects so the analysis presented above should be treated an indicative overview.

4.14 While this could be seen as a reflection of the more limited availability of public sector match funding since 2010, the analysis of the changing composition of match funding sources in Figure 4-7 indicates that the Programme achieved most success in attracting private sector match funding prior to 2010.

**Figure 4-7: Changing Composition of Match Funding Sources**

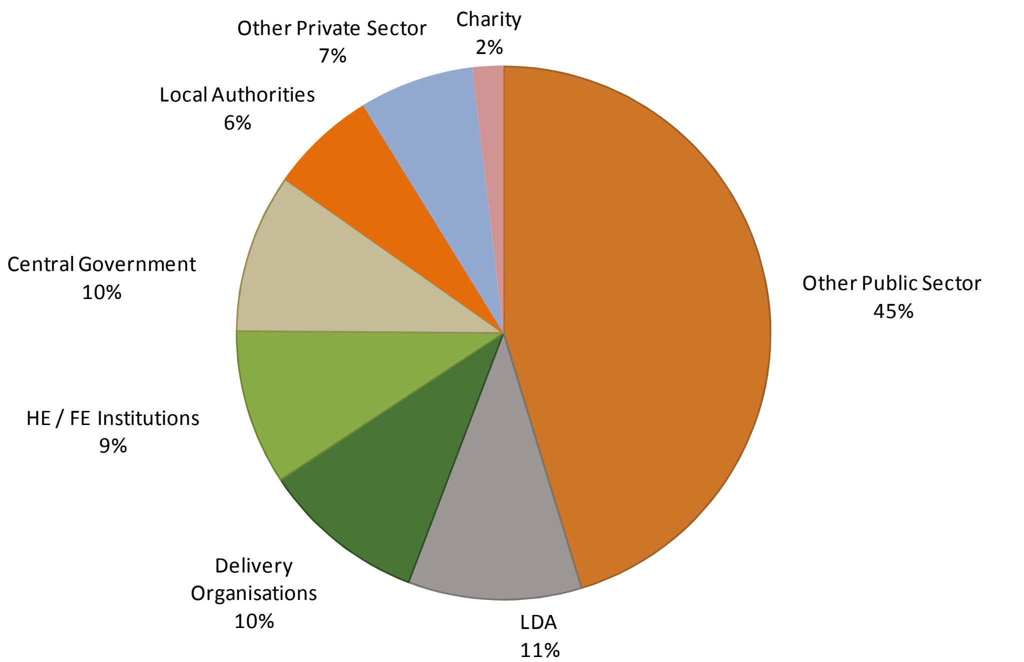





Source: Programme Financial Data, GLA
Note: Match funding data is incomplete for some projects so the analysis presented above should be treated an indicative overview.

4.15 The more detailed breakdown of match funding sources in **Figure 4-8** indicates that the Programme has attracted match funding from a wide range of organisation. Much of the private sector match funding has been provided by private sector delivery organisations, although there are also a number private sector funders who are not directly engaged in delivery of projects.

**Figure 4-8: Breakdown of Match Funding Sources**




Source: Programme Financial Data, GLA
Note: Match funding data is incomplete for some projects so the analysis presented above should be treated an indicative overview.

4.16 Whilst the Programme has never struggled to attract applications for funding, a number of the projects we spoke to indicated that there were constraints on match funding once projects were underway. This is particularly as a result of the public sector cuts, which resulted in a number of projects securing more private sector match funding. One of the features of this Programme which has reduced match funding issues is that the majority of match funding is staff time and not cash. Whilst this meets eligibility criteria, this has been more problematic and time consuming to manage and audit (as discussed in Section 9).

### Experimental Projects

4.17 At the outset of the Programme, it was anticipated that 2% of Programme funds would be diverted towards experimental projects. This was the result of negotiations with the European Commission who were particularly keen to incorporate this target into the London ERDF 2007-2013 Programme. During the early bidding rounds, few specific experimental applications came forward. In response to this, EPMU decided to launch a specific bidding round (Round 3) in June 2010 to encourage Experimental applications for ERDF funding.

4.18 The Programme has supported three experimental projects: two with the University of East London (Lightbulb Express and M-Com) and one with British Fashion Council (International Showcasing). It is felt that the resources dedicated to supporting experimental projects by EPMU are not in proportion to the projects supported. It is positive that EPMU tried to promote this aspect of the Programme (largely in response to a desire from the European Commission). The key issue which resulted in few projects being supported is that the term 'experimental' was insufficiently defined when the OP was drafted.

4.19 The projects supported amount to £0.9 million committed spend, which is less than 1% of the total committed to date. To meet the 2% of Programme value target, the Programme will need to contract experimental projects worth a further £2.2 million by the end of the Programme.

**Table 4-1: Overview of Experimental Projects (£ million)**

| Priority | Total Committed | Experimental Projects | Percentage of Total |
|---|---|---|---|
| Priority 1 | £30.6 | £0.2 | 0.6% |
| Priority 2 | £22.7 | £0.7 | 3.3% |
| Priority 3 | £58.4 | - | - |
| Priority 4 | £3.0 | - | - |
| Programme Total | £114.7 | £0.9 | 0.8% |

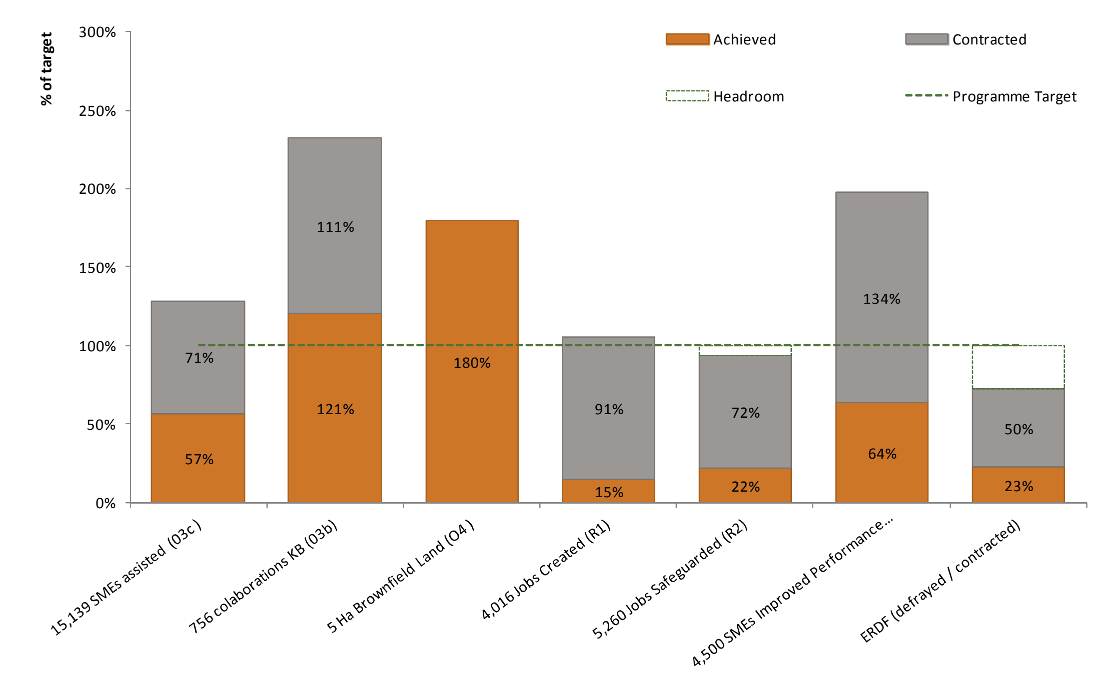
Source: Programme Financial Data, GLA (June, 2012)

## Programme Targets

### Outputs and Results Progress

4.20 The Programme reports on a large number of output and result indicators. Progress towards the detailed indicators relevant to projects in each priority is presented in subsequent sections of this report. The analysis presented here focuses on a small number of key outputs and results, against which the overall progress of the Programme towards its most important targets can be measured.

**Figure 4-9: Progress Towards Key Programme Output and Result Targets**




Source: Programme Financial Data, GLA (June 2012)

4.21 Progress towards headline targets is ahead of the level of committed and defrayed funds. Although 27% of the Programme allocation is yet to be contracted, for most of the key output and result targets the outputs for contracted projects will, if achieved, deliver overall Programme targets:

- Almost 60% of the Programme target for SMEs assisted has already been achieved and claimed. Contracted outputs will see a further 71% of the target delivered if projects deliver the number of business assists anticipated. This will result in the Programme exceeding this target by almost 30%.

- Progress on the results target for SMEs assisted to improve performance (which is closely linked to the SMEs assisted output target) is in line with performance on the SMEs assisted output. 64% of the target has already been achieved and there is a significant pipeline of results to come from contracted projects.

- Targets for collaborations with the knowledge base and brownfield land developed have already been exceeded by some margin.

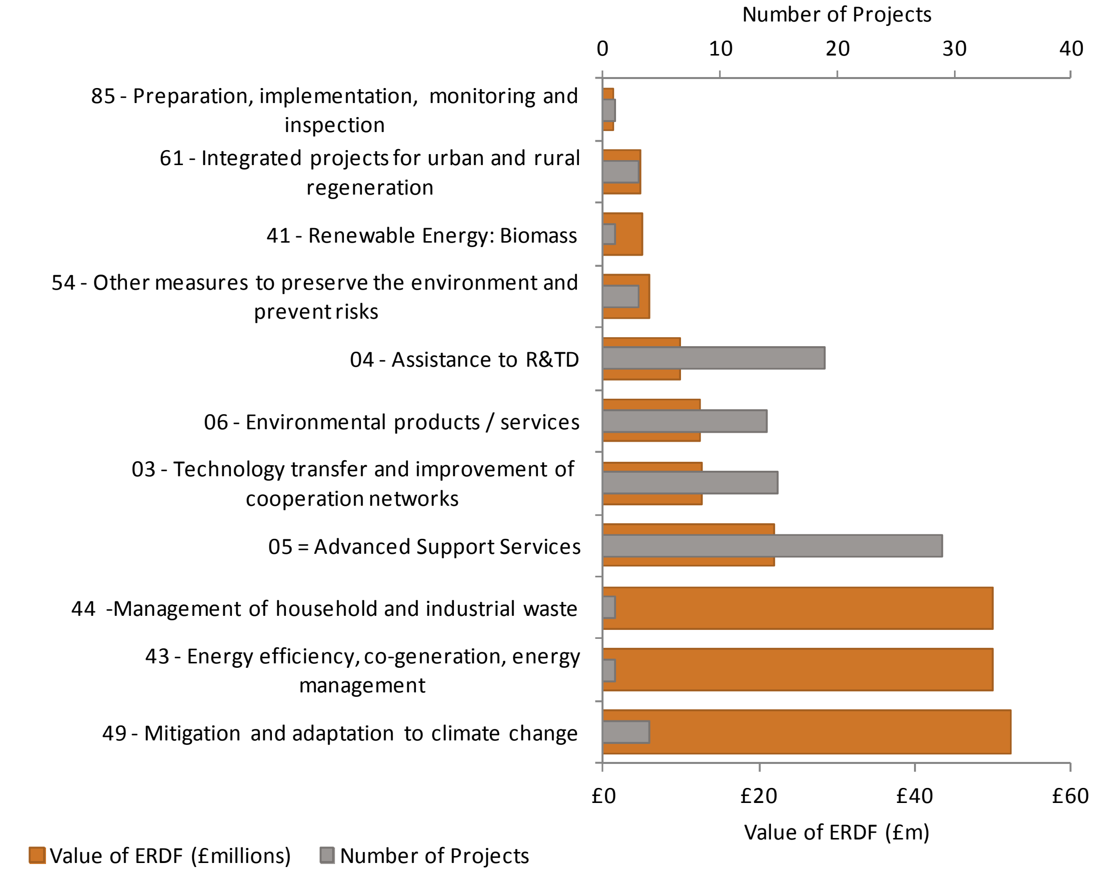
- Achieved results for jobs safeguarded (22% of the Programme target) is broadly in line with the level of defrayed expenditure to date (23%) which could suggest that the Programme is broadly on track to achieve its target. Further analysis is provided in Section 5 (Priority 1) and Section 6 (Priority 2) drawing upon the findings of the project reviews which have been carried out.

- Progress towards the jobs created result target is lagging behind the level of spend in the Programme to date – only 15% of the Programme target has been achieved. This may be a reflection of the challenging economic conditions. Again, this issue is discussed in more detail in other sections of the report (mainly Sections 5 and 6).

## Lisbon Compliance

4.22 Lisbon compliance within the project has been measured by recording, for each project, the most relevant Lisbon Codes to the activities delivered. At least one Lisbon Code has been recorded for each project although the proportion of spend relevant to each code is not available. The analysis presented in Figure 4-10 should be treated as indicative of the type of activities delivered by contracted projects, rather than the scale of ERDF funding committed to delivering activities within each code.

**Figure 4-10: Overview of Lisbon Compliance**




Source: Programme Financial Data, GLA (June, 2012)
Note: More than one Lisbon Code has been recorded against some projects so the total value of ERDF in this analysis will not sum to the total committed Programme funds.

4.23 While the analysis is only indicative, the most notable finding is that environment / sustainability related Lisbon Codes have been flagged against a large proportion of total spend committed to date although the actual number of projects that this relates to is low in comparison to the other codes. The Assistance to RT&D and Advanced Support Services codes have been flagged for the largest number of projects.

## Conclusions

4.24 The Programme is making strong progress towards its overall expenditure target and almost three quarters of the Programme's allocation has been defrayed or committed to date. To ensure that the remainder of the funds are committed and spent, the Programme now needs to focus on:

- **Ensuring that the pipeline is converted into contracted projects**. To achieve this, the Programme will need to boost the rate at which projects are contracted. Early signs for the existing pipeline projects are positive and EPMU will need to progress fairly quickly in allocating the remaining funds.

- **Monitoring the spend progress of already contracted projects**. An active approach to monitoring the defrayment of the £79 million of currently unspent contracted funds by projects is needed. Project monitoring will need to identify any projects at risk of under spending and take the necessary actions to amend contracts if necessary and reinvest the funds elsewhere

4.25 The Programme has performed particularly well in terms of levering in match funding from private sector sources. The target for private sector match funding set out in the Operational Programme (6% of all match funding) has been exceeded by some margin. Although there is a risk that increasing pressure on public sector budgets will reduce match funding availability and challenge the ability of the Programme to invest the remainder of its funds, the success that the Programme has enjoyed in securing private sector match funding will help to mitigate against this. However, the return to recession in 2012, may result in a tightening of the availability of private as well as public sector match funding.

4.26 A mixed picture on outputs and results achieved to date has emerged. Some of the key output indicators have already been exceeded (e.g. brownfield land developed and collaborations with the knowledge base), which may raise questions about whether more stretching targets could have been set for these indicators. Conversely, performance on results indicators has been less strong. While a lag between the delivery of assistance and realisation of results indicators can be expected, the target for 4,016 jobs created does not look achievable in light of limited progress to date and worsening economic conditions.

## Recommendations

### Current Programme

#### Focus remaining spend on projects which can be delivered within the timeframes and which contribute to achieving sustainable economic growth

4.27 There is around £11 million available for future bidding rounds (if all pipeline projects proceed) plus some potential underspend from contracted projects[4]. In deciding on where to allocate these resources, there are two main factors for consideration:

- Factor 1: there is a strong case for projects which make a long lasting contribution to the London economy and, especially given the relatively slow performance in job results achievement, those that support job creation. This is in line with the recent strategy focus from central and regional government. Furthermore, it responds well to some of the challenges resulting from the recession and associated difficulties in

[4] Note: this is based on the most recent sterling:euro exchange rates and so could vary up or down in the future

delivering job targets. Priority 1 and especially Priority 2 projects lend themselves well to this objective.

- Factor 2: the focus also needs to be on projects which can be delivered within the timeframes for the current Programme. Funding for relevant projects needs to be committed by December 2013 and will need to be spent by December 2015. This might suggest investing in capital projects under Priority 3 since they have a shorter lead in time.

4.28 On balance we suggest that Factor 1 should be the main consideration at this stage, which means the effort should be on identifying further Priority 2 projects which meet the criteria and use up the uncommitted Priority 2 resources, rather than viring out of Priority 2 at this stage. Further guidance on this is provided in the relevant section.

### Revise the financial target for Experimental Projects

4.29 Current Programme spend on experimental projects is 0.8% which is below the Operational Programme target of 2.0%. Given the fact that there are unlikely to be any further rounds dedicated to supporting experimental projects specifically and the significant difficulties faced by the Programme in achieving the current figure of 0.8% we believe that this needs to be reduced downwards. Our recommendation is that the target should be reduced to 0.8% since a higher target could result in the Programme diverting resources away from other more productive and useful activities. The resources dedicated to supporting experimental projects to date have been high relative to the projects supported (and the cost per job for these activities is likely to be higher than for many other interventions).

### Revise the match-funding targets for private and public spend

4.30 The Operational Programme (OP) document set out an indicative profile in terms of private and public sector match funding. The actual public and private match funding profile to date is quite different since there has been a reduction in public sector spend (as a result of the Government's public sector cuts) and an increase in private sector match funding overall. It is recommended that changes are made to the profile (if required by the European Commission). Our recommended changes are shown below.

**Table 4-2: Proposed Change to London ERDF Programme 2007-13 Financial Tables**

| | Operational Programme Target | | Actual Achieved to Date | | Recommended Changes | |
|---|---|---|---|---|---|---|
| | Public Match Funding (£m) | Private match funding (£m) | Public Match Funding (£m) | Private match funding (£m) | Public Match Funding (£m) | Private match funding (£m) |
| Priority 1 | £39.3 | £0.0 | £23.8 | £8.9 | £28.60 | £10.70 |
| Priority 2 | £36.9 | £3.8 | £13.9 | £13.5 | £20.65 | £20.05 |
| Priority 3 | £65.6 | £6.2 | £65.6 | £2.1 | £69.57 | £2.23 |
| Priority 4 | £5.7 | £0.0 | £3.0 | £0.01 | £5.68 | £0.02 |
| Total | £147.4 | £10.0 | £106.3 | £24.5 | £124.50 | £33.00 |

Source: OP document, Programme Financial Data, GLA (June, 2012) and Regeneris

### Revise Programme targets

4.31 There is a strong case for revising many Programme targets both upwards and downwards. This is explored further at a priority level and recommendations are set out in each of the relevant sections. There is a particular need to revise some Programme jobs results targets in the light of the challenges caused by the recession.

## Future Programme

### Reduce the number of Programme Targets

4.32 In hindsight, far too many separate targets were set for the London ERDF 2007-2013 Programme. This has made it difficult for individual projects to collect the relevant evidence. It has also resulted in considerable additional time required by EPMU to monitor progress and verify evidence. The sheer number of targets, including some which are of limited practical value or interest, has resulted in a focus being shifted away from more important results targets (such as job creation or jobs safeguarded). Recommendations on indicators which are less relevant have been made at the priority level and are included in the relevant sections of this report.

### Place stronger emphasis on achieving targets especially results and impacts

4.33 Historically considerable weight in the London Programme (as in other ERDF programmes) has been given to the achievement of spend (due to concerns about clawback if the N+2 spend profile was not achieved). A common feature of the English ERDF programmes we have evaluated has been the lack of emphasis on achieving Programme level results and, especially impact targets. Given changes to the European, UK and London economic climate it is even more important that projects can demonstrate that they are leading to job creation or increases in economic performance. A stronger emphasis on targets can be achieved by directing more resources to this area (e.g. working with projects to achieve this). EPMU could also consider performance-related funding whereby projects are paid explicitly for the targets achieved (so long as these are meaningful targets linked to results and impacts, not outputs).

4.34 Moving in this direction will require:

- A more sophisticated approach to global target setting at the outset of the Programme based on an informed view of the activities that the Programme will invest in. This needs to:
  - ➢ Use realistic cost per job units to ensure that they are in line with other similar support Programmes
  - ➢ Ensure that if there are parts of the Programme where the main focus is on improving environmental sustainability and moving to a low carbon economy, this lends itself to $CO_2$ reduction targets rather than GVA and job creation targets.
- Given that there is inevitably a time lag between writing the Programme and its

targets and being clear on the actual pattern of activities to be supported[5], there is a strong case for developing provisional targets whist the Programme is being developed and then moving to finalised targets within 12 months of any new Operational Programme being agreed by the Commission

- A tailored approach to target setting for individual projects (not just assuming a proportionate share of Programme targets)
- Consistent support and advice for projects in monitoring and evidence collection (that is proportionate in its burden)
- Embedding and using evaluation of impact as an integral part of the Programme.

### Explore the potential for the use of co-financing to support future project delivery

4.35 Prior to the start of the current Programme, a decision was taken at a senior level within the LDA not to use single pot money to co-finance ERDF at a programme-wide level. However, the view of the evaluators is that any future London ERDF Programme could be directed in a significantly more strategic way if a co-financing approach to securing match-funding was used (either in part or for the Programme as a whole). Potential sources of match-funding might include the GLA itself, BIS/DECC, London Councils (and potentially local authorities separately).

4.36 A co-financing approach would mean that delivery could be more planned and less reactive. In this way it would be possible to better address issues for the London economy and realise aspirations for the future. These issues are discussed in more detail later in the report (particularly under the management section).

[5] As was the case with the JESSICA fund for instance

# 5. Review of Priority 1

## Priority 1 Strategy and Objectives

5.1 The Priority 1 axis concerns business innovation and research, and promoting eco-efficiency. The priority was designed to focus on innovation as defined by the DTI: 'the successful exploitation of new ideas' in order to drive output and productivity growth. Priority 1 was intended to address the barriers to innovation faced by London's SMEs which mean that sustainable growth and productivity are hindered.

5.2 The market failure rationale in favour of support for innovation is identified in the Operational Programme documentation as:

- Insufficient market information regarding the benefits of innovation, complex research and development and knowledge transfer processes
- SMEs often do not consider the long term benefits of innovation
- The cost of information and advice is too expensive or inaccessible.

5.3 Research from LABS was used to illustrate that parts of the London economy have low levels of productivity and innovation and that knowledge exchange between businesses and with knowledge base are important drivers of this. Priority 1 therefore aims to develop a wider culture of innovation and develop the capacity within SMEs to develop and apply innovation strategies. Running through Priority 1 is the aim to increase environmental innovation and the application of low-carbon technologies and energy efficiency processes by London's SMEs.

5.4 Priority 1 was allocated €53.7 million, representing £43.0 million at the current exchange rate (€1=£0.80). This equates to 27% of the overall Programme.

## Delivery Approach

5.5 There were 48 projects delivered under Priority 1; 41 are already contracted and a further 7 are in the pipeline. As a result, almost half of the projects (22) were in receipt of £500 thousand or less of ERDF funding. Conversely 2 projects received £5 million or over.

5.6 A range of types of delivery body were involved in Priority 1, often with a number of organisations involved in any one project. The main types of delivery partner are set out below:

- **Higher and further education institutions** – particularly their business engagement arm such as the Women's Business Centre at Newham College and London Metropolitan University's incubator. These delivery partners tend to have access to relevant SMEs, are able to offer appropriate and specialist support and typically have the management structures in place for efficient and effective project management and monitoring.

- **Other knowledge institutions –** specialist institutions such as the Manufacturing Advisory Service, British Print Industries Federation and the British Library which provide very specific support, often with a sector or specialist focus across a wide geography.

- **Local authorities –** often working in partnership with other local authorities and delivery organisations to provide support within their geographical boundaries.

- **Delivery organisations** – organisations such as Greater London Enterprise tend to offer a broad spectrum of support (as opposed to focusing on a specialist area) across larger geographies and are familiar with the reporting requirements of ERDF.

- **Other public sector organisations** – past delivery partners included the London Development Agency and the London Thames Gateway Development Corporation.

- **Charities** – specialising in supporting certain types of businesses (related to equalities targets, deprived communities or sectors) or raising the profile of a specific agenda, such as the environment, depending on the wider remit of the charity.

5.7 Delivery from organisations with a specific focus or links with new research, such as higher and further education institutions and other knowledge institutions, have been able to provide more rigorous and focused support.

5.8 Some delivery partners have struggled to cope with monitoring and claims requirements as well as the financial burden of delayed claims. This is especially true of those which are run by small or inexperienced delivery bodies though our project reviews indicated that almost all project types and delivery partners experienced this.

5.9 In the main, larger or more specialised delivery partners with experience of ERDF or similar projects demonstrate greater capabilities to deliver ERDF projects well and in accordance with the Programmes' aims.

5.10 The high volume of projects has led to time lags in claims processing and a lack of strategic overview of what is being delivered and how they are progressing, including some geographical overlap of similar projects.

## Themes

5.11 Within Priority 1 sit two delivery themes designed to define the types of projects the Programme will deliver under this priority:

- Priority 1 Theme 1: Developing a culture of, and capacity for, creating and using innovation throughout London's businesses to create sustainable growth

- Priority 1 Theme 2: Leveraging value from London's world class knowledge base to benefit London's economy

5.12 Projects are commissioned against these themes in accordance with specific actions identified within the London OP. These relate to innovation; environmental innovation;

business connections with the knowledge base; innovation related collaborations between businesses; environmental transformation; and Proof of Concept and Intellectual Property Advice. These are set out in the table below.

| Theme | Action | Indicative Activities |
|---|---|---|
| 1:1- Developing a culture of, and capacity for, creating and using innovation throughout London's businesses to create sustainable economic growth | Promoting Innovation | • Raising awareness of innovation among SMEs currently not investing in innovative activities.<br>• Providing innovation guidance and support for businesses in innovation and commercialism strategies.<br>• Supporting business- led networking to encourage collaboration. |
| | Promoting Environmental Performance | • Advice and information to promote innovation and the best practices in environmental approaches.<br>• Raising awareness and providing information on measures to improve the overall environmental performance of a business.<br>• Support to undertake 'green' diagnostics and develop environmental action plans. |
| 1:2- Leveraging value from London's world class knowledge base to benefit London's economy | Connection with knowledge institutions | • Strengthening the capacity of knowledge organisations to work with business to create commercially valuable knowledge and implementation strategies in new areas.<br>• Creating knowledge transfer capacity mechanisms in Further and Higher Education to provider broader SME access to innovation. |
| | Innovation Collaborations | • Supporting the exchange of people between business and the Further and Higher Education knowledge base.<br>• Business to business knowledge transfer, especially the cross- sector situations. |
| | Environmental Transformation | • Raising awareness and adoption of technologies to reduce carbon emissions.<br>• Supporting the development of markets for new energy technologies.<br>• Demonstration projects that support environmental transformation for business. |
| | Proof of Concept and Intellectual Property Advice | • Direct support to undertake applied research and product development.<br>• Advice and support to help research and prove the feasibility of an idea. |

## Outputs and Results Targets

5.13 The indicators identified for Priority 1 are reflective of the aims set for the priority. The Priority is responsible for the delivery of all (100%) of the OP's **output targets** for collaborations with the knowledge base (O3b); collaboration networks (LO12); environmental referrals (LO13); and environmental performance (LO14).

5.14 The Priority is also responsible for 100% of the **results targets** for innovation related jobs created (LR9); innovation projects (LR10); and business integrating new products and processes (LR11). There is clearly a strong focus on promoting innovation within London's

SMEs as identified in the Programmes aims for Priority 1.

5.15 The Priority is earmarked to deliver half (49%) of the businesses assisted target (O3c) and the jobs safeguarded target (R2). Around a third of the Programme's total jobs created target (R1) is allocated to the Priority while around a sixth of the Programme target for GVA is allocated to Priority 1.

**Table 5-1 Priority 1 Outputs and Results Targets**

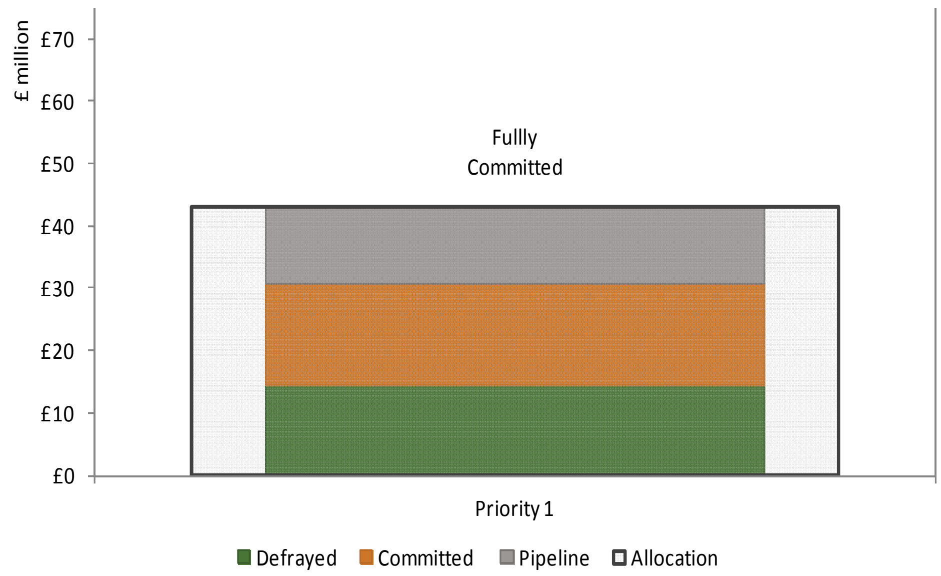
| Indicator | Target | % of Total Target |
|---|---|---|
| ***Output Indicators*** | | |
| 03c No. of businesses assisted- of which a minimum of 5% will be in the environment sector | 7,557 | 49% |
| 03b No. of businesses within the region engaged in new collaborations with the knowledge base | 756 | 100% |
| LO12 No. of businesses involved in collaboration networks | 1,575 | 100% |
| LO13 No. of SMEs referred for environmental advice | 1,000 | 100% |
| LO14 No. of SMEs supported to achieve quantifiable improvements in their environmental performance | 750 | 100% |
| ***Result Indicators*** | | |
| R1 No. of jobs created- of which a minimum of 5% will be in the environment sector | 1,390 | 35% |
| R2 No. of jobs safeguarded | 2,580 | 49% |
| LR9 No. of innovation related jobs created | 390 | 100% |
| R3 No. of businesses with improved performance | 2,000 | 44% |
| LR10 No. of innovation related projects secured/ undertaken- of which at least 50 will be projects secured/ undertaken as a result of collaboration networks | 100 | 100% |
| LR11 No. of businesses integrating new products, processes or services | 75 | 100% |
| ***Impacts expected from Priority Axis 1*** | | |
| Increase in GVA | €45m | 15% |
| Source: Operational Programme document | | |

## Priority 1 Progress

### Expenditure and Commitments

5.16 All of the £43.0 million funding allocation for Priority 1 has been committed. £14.5 million has been defrayed, £16.1 million committed and a further £12.4 million is in the pipeline.

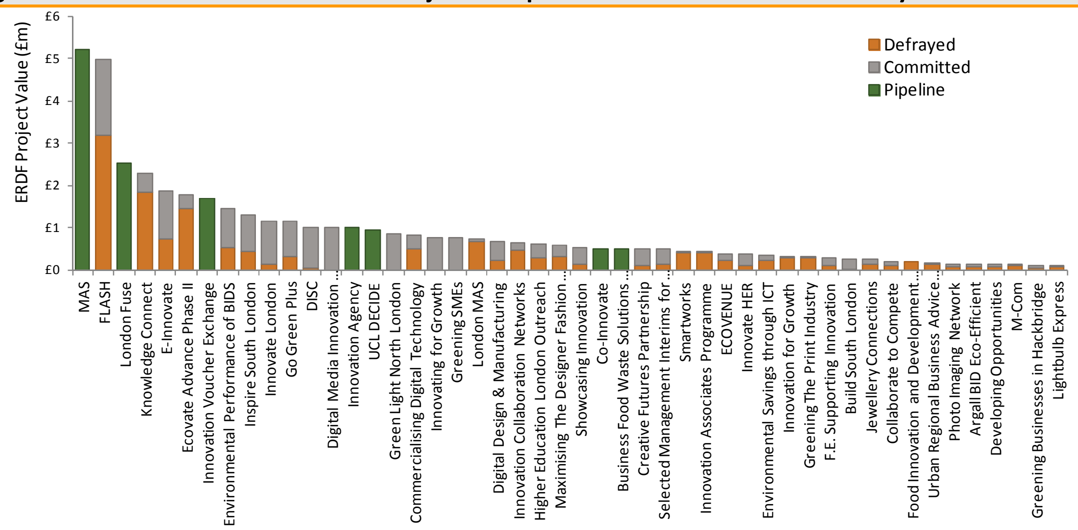
**Figure 5-1: Overview of Expenditure and Commitments in Priority 1**




Source: Programme Performance Data, GLA (June 2012)

5.17 The majority of projects under Priority 1 were in receipt of less than £1 million of ERDF funding meaning that there are a large number of small projects amongst the 48 projects in the Priority. In more recent bidding rounds (Rounds 4 and 5) two projects of over £5 million were approved (the MAS project is currently in the pipeline).

**Figure 5-2: Contribution of Individual Projects to Spend and Commitments in Priority 1**

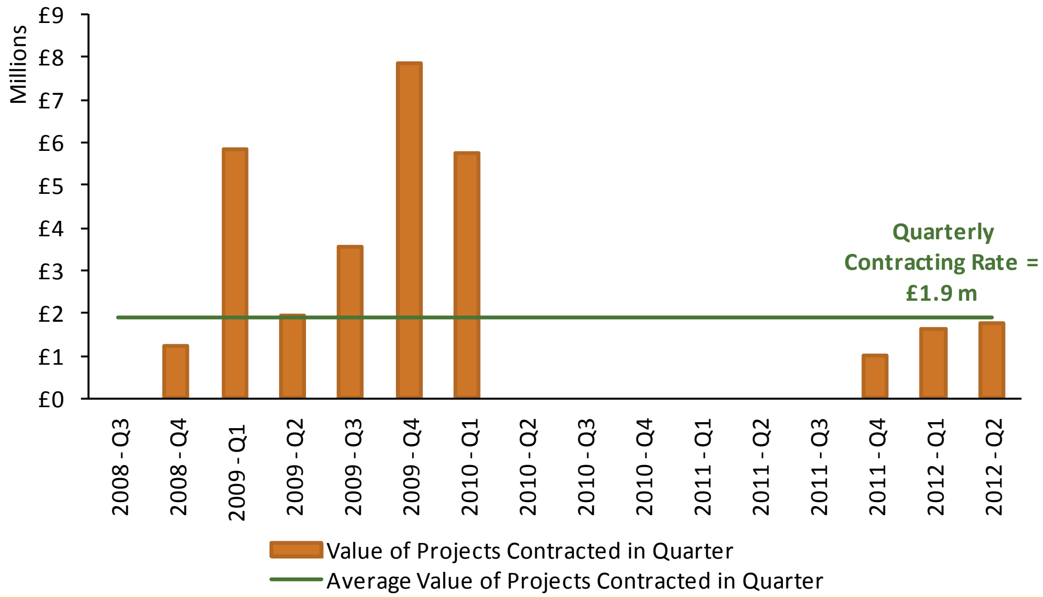



Source: Programme Performance Data, GLA (June 2012)

## Contracting Rate

5.18 The Programme did not set quarterly targets for contracting projects. Nevertheless, the quarterly contracting rates achieved by the Programme to date are highlighted below. The average quarterly contracting rate for Priority 1 was £1.9 million. However, contracting of Priority 1 projects was largely undertaken in 2009 and the first quarter of 2010, with three quarters contracting over £5 million. Over the remainder of 2010 and the first three quarters of 2011 no contracting was undertaken. Despite this, bidding rounds 3 and 4 were carried out over this period which included some contract discussions and negotiations taking place. A further £5 million was contracted from end of 2011 to mid 2012.

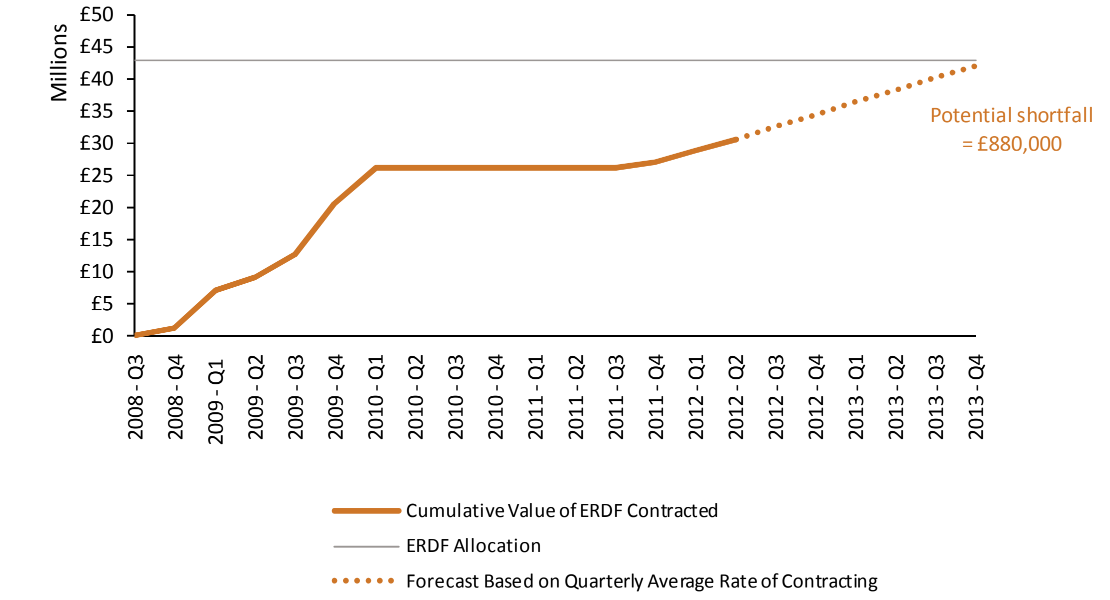
**Figure 5-3: Overview of Contracting Rate**




Source: Programme Performance Data, GLA (June 2012)
Note: This analysis is based on the date when the ERDF funding agreement was signed by the project applicant. In some cases, delivery of project activities and defrayment of funds may have preceded this date.

5.19 To the end of the second quarter of 2012 around £30 million has been contracted under Priority 1. Based on the average quarterly rate of contracting there would be a potential shortfall of £880,000. However, all of the Priority 1 funding has now been committed given the pipeline projects under Round 5.

**Figure 5-4: Forecast Contracting Rate**

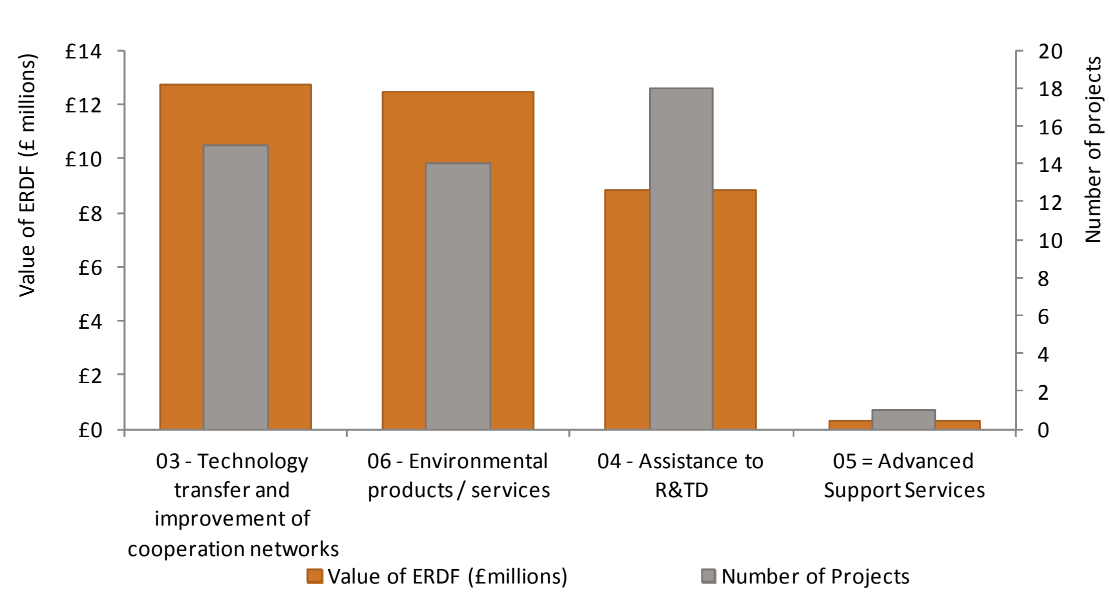



Source: Programme Performance Data, GLA (June 2012)

## Lisbon Compliance

5.20 Just under a third of Priority 1 projects are compliant with the 03 Lisbon code which relates to technology transfer and improvement of cooperation networks. A similar proportion and value of projects (c.15) are compliant with 06 – environmental products and services, reflecting the environmental projects contracted. Around 20 projects (value of c.£10 million) are complaint with 04 – assistance to R&D, which illustrates the innovation projects contracted. A very small amount (in terms of both value and number of projects) contribute to 05 – advanced support services.

**Figure 5-5: Lisbon Compliance Overview – Priority 1**




Source: Programme Performance Data, GLA (June 2012)

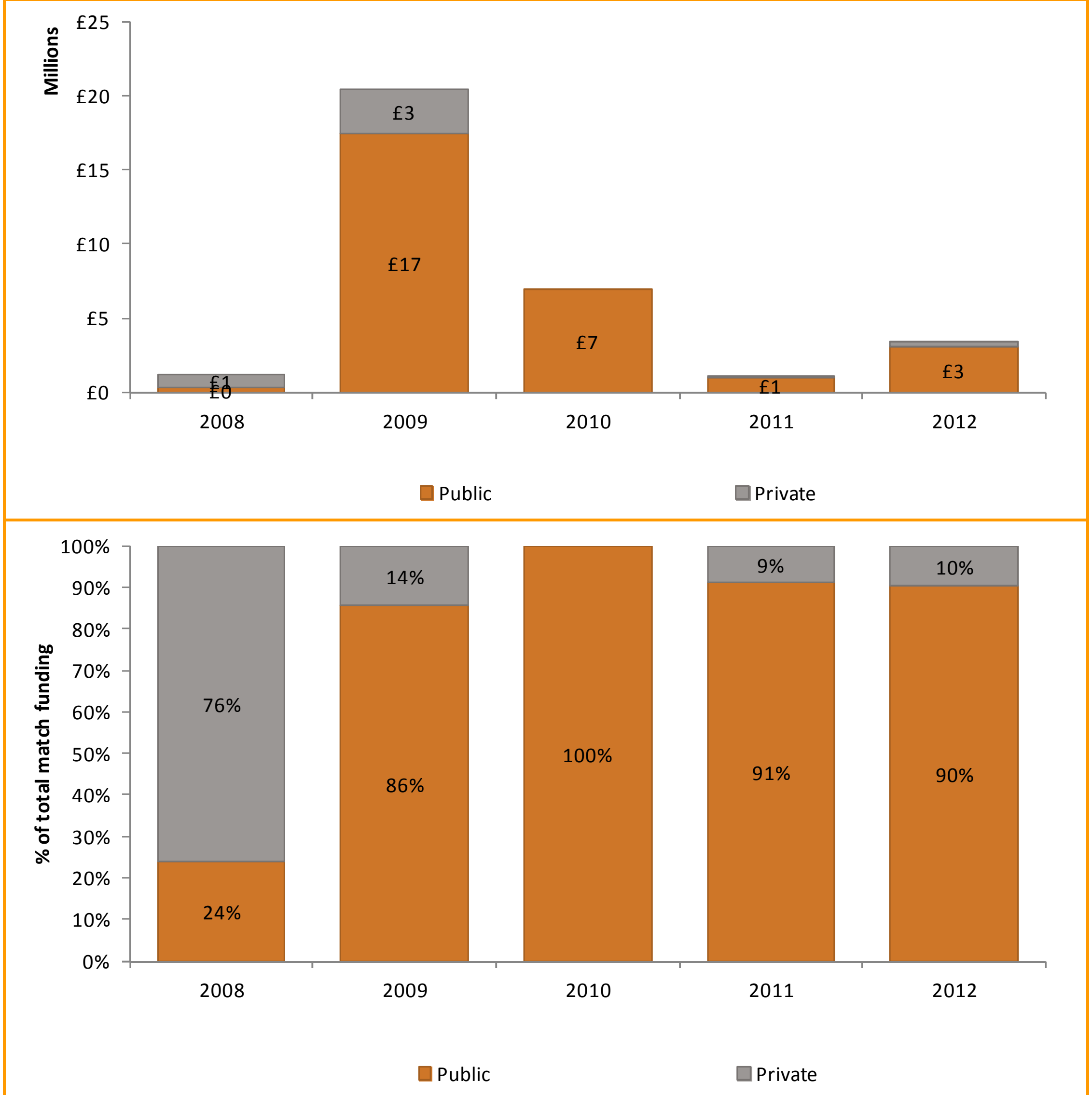
Note: Multiple Lisbon codes are flagged for some projects so the total value of ERDF will exceed that committed in the Priority

## Match-Funding

5.21 The majority of match funding has been from public sector sources. At the start of the OP in 2008, 76% of match funding was sourced from the private sector though this relates to a small absolute figure. Conversely, 2010 saw 100% of match being obtained through public sector sources.

5.22 The project reviews identified that in some instances the match funding from delivery partners has altered, particularly where organisations have been adversely affected by the recession. On some occasions this has been picked up by other delivery partners on the project while in others a material change was required to reduce the overall project budget.

**Figure 5-6: Changing Composition of Match Funding – Priority 1**

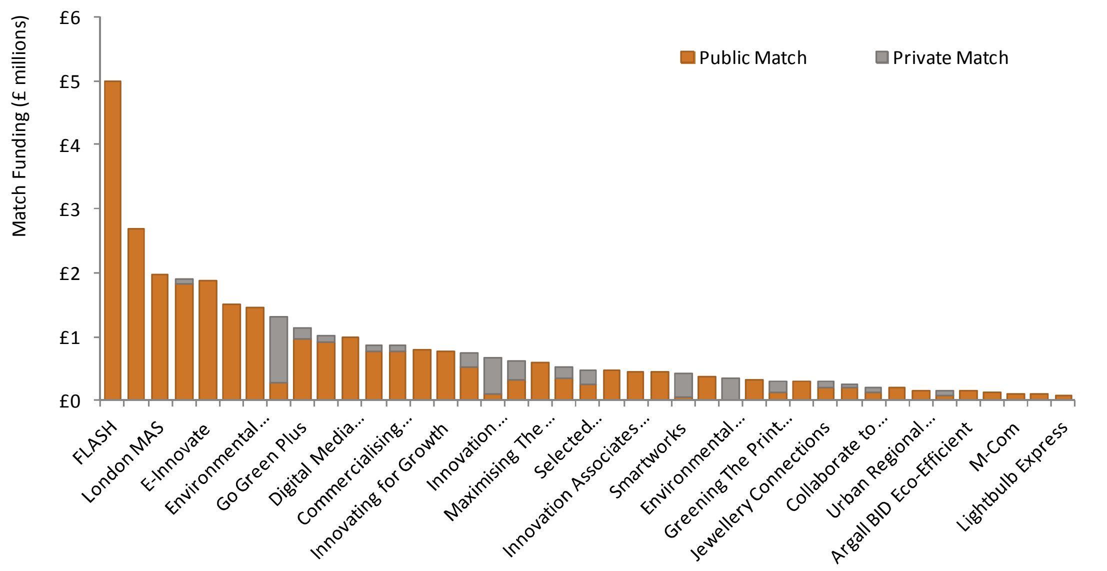



Source: Programme Financial Data, GLA (June 2012)
Note: Match funding data is incomplete for some projects so the analysis presented above should be treated an indicative overview.

5.23 The majority of projects were funded wholly by public match. Eighteen of the 48 projects under Priority 1 received some private sector funding, though for most of these this was less than half of the total match. Only one project received its entire match from private sector sources.

5.24 An interesting model for private sector match funding is through Business Improvement Districts. One particular project demonstrated that it is possible to join two separate initiatives (ERDF and local BIDs) around a sole aim. As the project accesses finances generated by local businesses, it is potentially a model which could be replicated elsewhere where aims are aligned and where the project can demonstrate that it will meet the overall objectives of the Operational Programme.

**Figure 5-7: Match Funding Analysis for Priority 1**



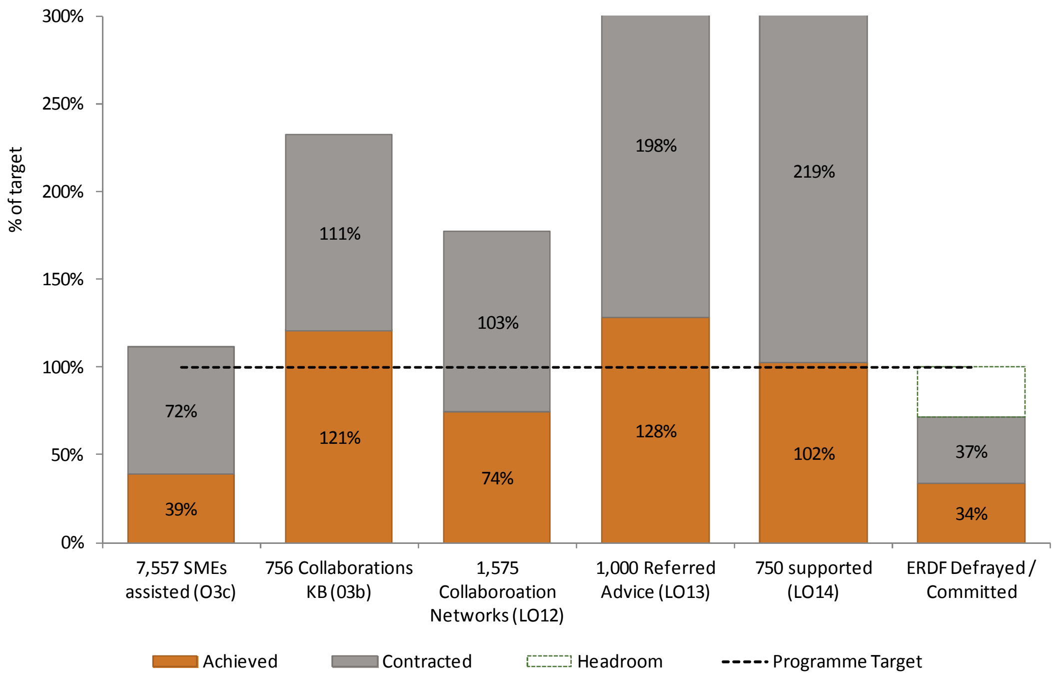

Source: Programme Financial Data, GLA (June 2012)
Note: Match funding data is incomplete for some projects so the analysis presented above should be treated as an indicative overview.

## Progress towards Outputs and Results Targets

5.25 Priority 1 demonstrates positive progress towards the majority of its outputs and results targets, though achievement against the three jobs targets are a cause for concern at this late stage in delivery.

5.26 The Priority has already achieved three of its **output targets** around collaborations with the knowledge base (03b); environmental referrals (LO13); and environmental performance (LO14). This means that the Programme has also achieved these targets as Priority 1 was responsible for 100% of their delivery. Progress towards the businesses assisted target (O3c) has proved more difficult and only 40% has been achieved to date.

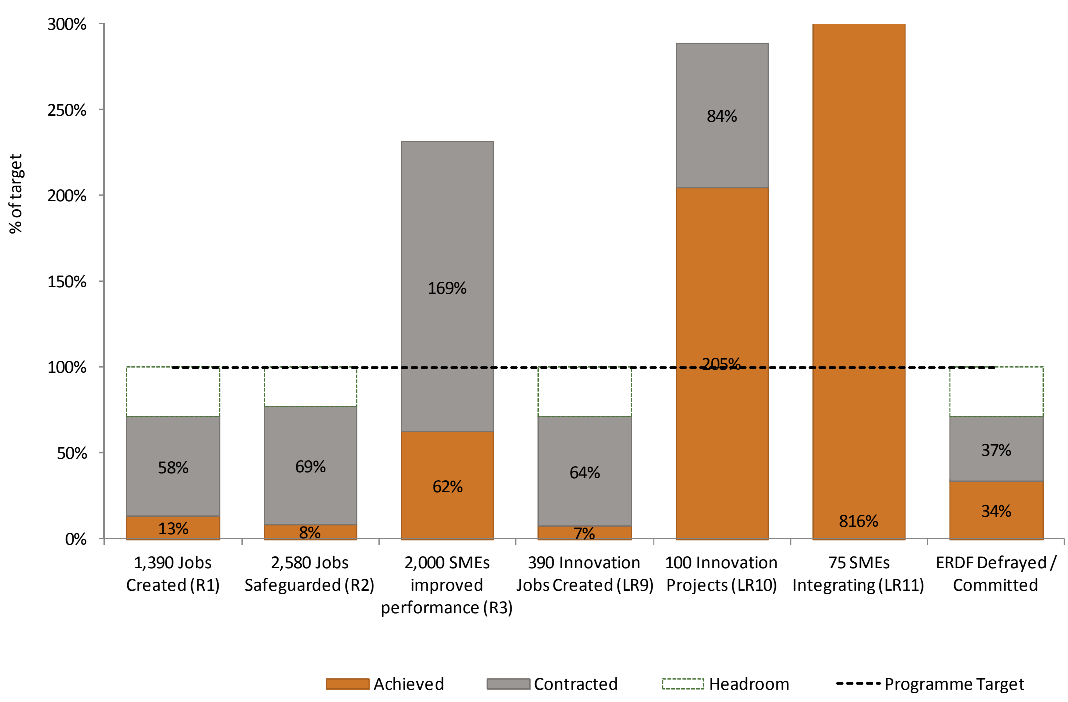
**Figure 5-8: Priority 1: Progress Towards Outputs Targets**




Source: Programme Performance Data, GLA (June 2012)

5.27 There has been mixed progress towards the **results targets** of the Priority. While two targets have already been significantly exceeded (innovation projects (LR10) and business integrating new products and processes (LR11) the three targets related to jobs are underperforming and have only achieved around 10% across the board. Project reviews indicate that this has been influenced by the recession as well as the fact that environmental projects are not geared towards job creation.

**Figure 5-9: Priority 1: Progress Towards Results Targets**

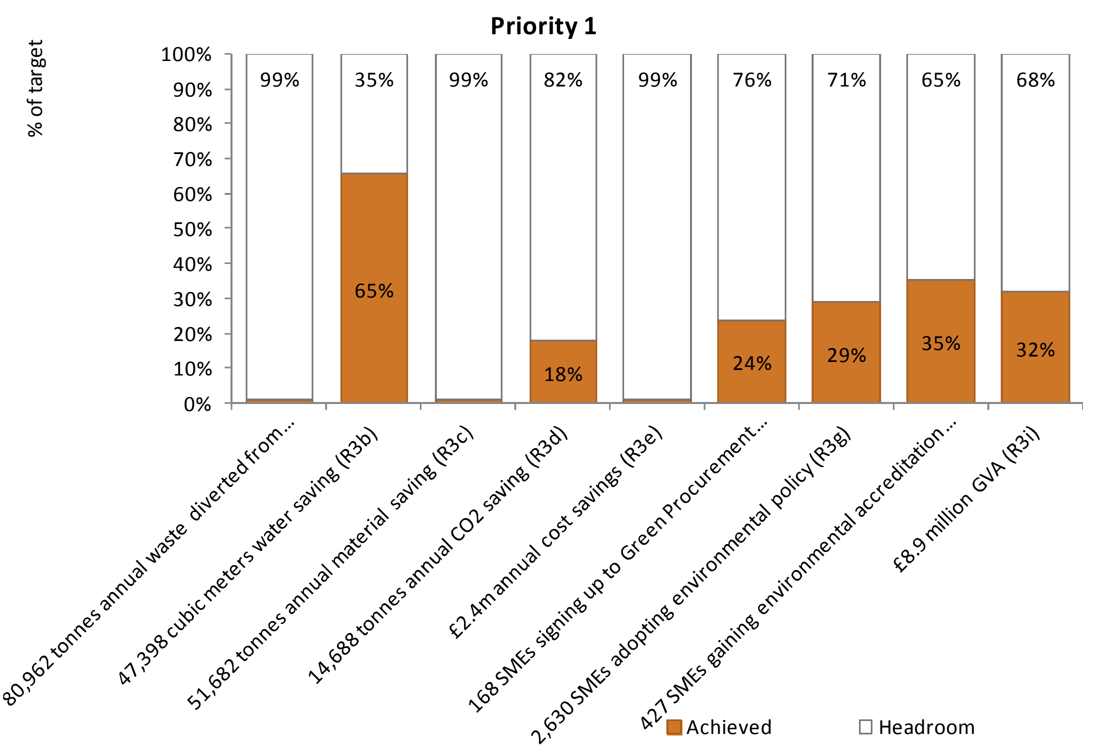



Source: Programme Performance Data, GLA (June 2012)

5.28 Priority 1 has nine **sub targets** against its target for improved performance (R3). All of these relate to environmental impacts. Achievement of all but one (R3b) has proved slow, in the main due to the time lag in the realisation of impacts and difficulties in gathering evidence. Often environmental impacts are only evident a year after intervention when annual bills can be compared, though the relevant SMEs may no longer be involved in the project after this time. Annual cost savings (R3e) and CO2 savings (R3d) are especially likely to materialise towards the end of project delivery.

5.29 Annual waste diverted from landfill (R3a) and tonnes of materials saved (R3c) have proved less relevant to the types of project delivered. The Mayors Green Procurement Code (R3f) is no longer of relevance to the projects; it is no longer free of charge and project managers struggle to identify the benefits to their beneficiaries.

**Figure 5-10: Priority 1: Progress Towards Sub-Targets**




Source: Programme Performance Data, GLA (June 2012)

## Assessment of Priority 1 Investments

5.30 Over half of Priority 1 projects (27) were contracted under Priority 1 Theme 1, with a roughly even split between Promoting Innovation and Promoting Environmental Performance. A smaller number (14) were contracted under Priority 1 Theme 2 with most of these focusing on Connection with Knowledge Institutions. Less of a focus has been given to Innovation Collaborations, Environmental Transformation and Proof of Concept/Intellectual Property Advice.

5.31 The following assessments can be made about the investment fit under Priority 1:

- **Priority 1 Theme 1 – Promoting Innovation:** This forms the focus of the Priority in terms of the number of projects. The most focused of projects under this action deal with one sector and drew on experts. Most focus is around supporting a business to implement changes as opposed to business-led networking. Over half of pipeline projects fall under this action. Bidding Round 4 did not include this action given the already large number of projects within it. This is one example of how EPMU has ensured that the Programme responds to the broader needs and objectives under Priority 1.

- **Priority 1 Theme 1 – Promoting Environmental Performance:** A large number of projects fall under this action and there is a good spread across all three action areas (environmental advice, awareness and diagnostics). There is, however, evidence of some geographical duplication.

- **Priority 1 Theme 2 – Connecting with Knowledge Institutions:** This action has the largest number of projects under Theme 2. There is a good spread of sector specific and more general knowledge base connections. The main focus of projects under this action is on building knowledge transfer with FE and HE with SMEs. Less of a focus is provided on R&D in biofuels, environmental technologies and novel materials as set out in the OP documentation.

- **Priority 1 Theme 2 – Innovation Collaborations:** Only a small number of projects (3) sit within this action. The primary focus of these is on supporting the exchange of people between businesses and HE/FE institutions. There is less of a focus on business to business knowledge transfer.

- **Priority 1 Theme 2 – Environmental Transformation:** There is very little focus on this action with only 2 projects contracted. The majority of environmental projects were contracted under Theme 1 which has a broader innovation focus.

- **Priority 1 Theme 2 – Proof of Concept and Intellectual Property Advice:** Only 1 project has been contracted under this action and a further project is in the pipeline. This action is very niche which may limit opportunities to identify projects.

5.32 The main analysis of the investment fit is as follows:

### Over-dependence on projects within Theme 1 which has a broader focus

5.33 Theme 1 received the highest number of applications under Priority 1 and resulted in a higher number of projects than in Theme 2, despite the innovation action of Theme 1 being excluded from bidding Round 4. Given the types of projects under this Theme it is likely that this is a reflection of its relatively broad focus around innovation and environmental innovation. Theme 2 has a tighter focus linked to more specific actions which led to less demand from bidders. This has resulted in a large number of projects offering relatively broad innovation support.

### Differing types of innovation support

5.34 Innovation, as set out in the Operational Programme documentation, refers to 'the successful exploitation of new ideas' (DTI definition). The use of this definition within the Programme is designed to be relatively broad. This has enabled some projects to support businesses to enhance existing products and processes to achieve improvements in growth and productivity, as well as enabling knowledge based institutions to support businesses to develop new products and processes. Due to the split of projects focused on Theme 1 and Theme 2 there has been more of a focus on the first of these (and potentially more could have been done to support the second).

5.35 There were relatively few projects which focused exclusively on the development of innovative products or processes. While other Operational Programmes across the country have developed linkages with national initiatives around innovation and collaboration this has not been as widely evident in the London Operational Programme.

### Some geographical duplication of environmental support projects

5.36 There has been some geographical overlap of projects, particularly those with an environmental focus in Theme 1. This has meant that such projects have had a limited pool of beneficiaries to work with. More could potentially be done during the approvals process to avoid such instances.

### A large number of small projects has diluted strategic overview and increased administration

5.37 Priority 1 has a large number of projects which has meant that developing a strategic overview of the Priority and its progress can be difficult. In addition, this has multiplied the amount of administration required for EPMU. In response to this, EPMU contracted fewer projects after Round 2 and did not include the innovation action within Theme 1 in the Round 4 bidding prospectus (responding to the fact that a large number of projects had been supported under this theme in earlier rounds). The fact that there are a number of complex projects supported under Priority 1 with a number of delivery partners has also increased the administrative burden for EPMU.

5.38 Table 5-2 provides further detail on the investment fit with Priority 1.

**Table 5-2 Summary Assessment of Priority Investments and Pipeline Fit**

| Theme | Action | Investment Fit and Gaps | Strength of Pipeline |
|---|---|---|---|
| 1.1 | Promoting Innovation | • This action has the largest number of projects associated with it for all of P1.<br>• 13 of the 27 projects under 1.1 align with the Promoting Innovation action.<br>• An additional 3 projects align with this action as well as Promoting Environmental Performance.<br>• The most focused of the projects under this action deal with one sector (e.g. print industry; designer-makers; digital businesses; manufacturing companies) and are able to draw on experts.<br>• A small number of projects also have a specific focus on one or more of the equalities groups. This appears to be most focused where it builds on an existing initiative such as the Women's Business Centre (Innovate Her).<br>• Most focus is on raising awareness of innovation and providing guidance and support on implementing changes.<br>• Less focus on business-led networking. Possible focus for future investment but also picked up to a degree in 1.2. | • 4 out of 5 pipeline projects for 1.1 projects align with this.<br>• A larger proportion appear to have greater clarity around innovation than earlier Rounds<br>• Includes some substantial sized projects (including the largest P1 project to date – MAS £5.2m ERDF) so still a key focus on 1.1<br>• Good use of projects with experience of delivery (e.g. MAS) or links to other initiatives (e.g. Innovation Vouchers)<br>• 3 of the 4 projects are sector specific (fashion, digital and manufacturing) |
| | Promoting Environmental Performance | • This action also has a large number of projects (Second highest for P1).<br>• 11 of the 1.1 projects align with this action.<br>• A further 3 projects align with this action as well as Promoting Innovation. These projects appear to be less focused on either action.<br>• Good spread across all three action areas (environmental advice, awareness and diagnostics)<br>• Few projects have a direct focus of equalities targets.<br>• Three projects focus on specific sectors.<br>• Some cross over on geographies of similar projects eg. Between Go Green Plus and Inspire South London | • 1 of the 5 pipeline projects for 1.1 align with this.<br>• Focused on reducing food waste which has not been a specific project focus to date. This focus also links well with wider policy related to reducing food waste. |
| 1.2 | Connection with Knowledge Institutions | • Majority of focus of this theme is on this action (half of the 14 projects)<br>• An additional 3 projects focus on this action together with another action (2 also focus on Innovation Collaborations and 1 also focuses on Environmental Transformation)<br>• Good spread of sector specific and more general knowledge base connections.<br>• Most focus on building knowledge transfer between FE and HE with SMEs. Less focus on R&D in biofuels, environmental technologies and novel materials as set | • 1 of the 2 pipeline projects for 1.2 align with this |

| | | | |
|---|---|---|---|
| | | out in the OP document. | |
| | Innovation Collaborations | • Only 3 of these projects do this (1 of which also focuses on Connection with Knowledge Institutions).<br>• Primary focus of these is on supporting exchange of people between businesses and FE/HE. Less focus on business to business knowledge transfer (though this is likely to happen organically, including under Connection with Knowledge Institutions e.g. Innovate London incubators).<br>• More scope exists for projects to support the exchange of people between businesses and FE/HE.<br>• Potential opportunities to link with KTPs/KTNs in the future (though project reviews identified issues with match funding).<br>• | • No projects fall under this action.<br>• Given the small number of projects under this action in Rounds 1-4, this creates a gap in delivery. |
| | Environmental Transformation | • Very little focus on this action. Only 2 of the projects aligned. However, these are both linked with other actions (1 is linked with Connection with Knowledge Institutions and the other is more closely aligned with 1.1).<br>• Much weaker alignment with this action than for environmental action under 1.1.<br>• Potential to remove this in future and concentrate on more successful delivery under 1.1. | • No projects fall under this action.<br>• This is a potential gap in the remainder of delivery. However, could potential exclude this action in the future as largely delivered under 1.1. |
| | Proof of Concept and Intellectual Property Advice | • Very little focus on this action. Only 1 project.<br>• Probable that some other projects provided ad hoc support related to POC and IP though overall very limited delivery on this.<br>• Very niche area which may limit opportunities to identify projects  as well as limit demand from SMEs.<br>• In future could be integrated with Connection with Knowledge Institutions and Innovation Collaborations as main focuses of 1.2. | • 1 of the 2 1.2 Round 5 projects align with this (London Innovation Voucher Exchange). This is a relatively large project (£1.7m ERDF) so may fill the gap to a degree. |

## Conclusions

5.39 The overall assessment of Priority 1 indicates that good progress has been made towards the majority of targets and, given that all ERDF investment for the Priority has been committed, there is potential to achieve a number of them by Programme end. The main area to which this does not apply are the three jobs targets, which have proved difficult to deliver in the context of the recession and in terms of the type of some of the projects under the Priority (for example, environmental support).

5.40 The portfolio of investments shows a strong fit with the objectives of the Operational Programme though these have been skewed towards Theme 1 as opposed Theme 2. Where projects have involved Further and Higher Education Institutions they have tended to demonstrate more specialist support, for example for a particular sector, but overall there has been less of a focus on supporting businesses to develop new products and processes or evidence of linkages with national Programmes in this area.

5.41 The following conclusions can be drawn with regards to Priority 1:

- Early bidding rounds resulted in the contracting of a large number of small projects, adding to the administrative burden on EPMU and clouding the ability to gain a strategic overview of progress within the Priority. EPMU acted to rectify this in subsequent rounds by contracting fewer projects.

- There is a disparity in the volume of investments in Theme 1 compared to Theme 2. There are a range of reasons for this:

  - A broader set of eligible actions under Theme 1 and a tighter focus of actions provided under Theme 2 has meant that there has been more demand from projects for the former.

  - There is some overlap between actions in Theme 1 and Theme 2 but, as discussed above, Theme 1 offers a broader scope for delivery which attracted more bids.

  - There were limited linkages made between ERDF and national initiatives such as Knowledge Transfer Partnerships which could have strengthened demand for Theme 2.

- Priority 1 Projects delivered by Further and Higher Education Institutions or other knowledge base institutions have demonstrated more specialist support, either in terms of topic or sector, than provided by other delivery bodies.

- Targets related to jobs (created, safeguarded and innovation jobs created) have been difficult to achieve. In part this is a reflection of the recession. However, it is also a reflection of the types of projects commissioned under Priority 1. Environmental projects have tended to focus primarily on assisting SMEs to implement energy and waste saving methods rather than on designing innovative new products and processes around the environmental agenda. As such these projects have contributed primarily to the R3 sub-targets and have not tended to lead directly to the creation or safeguarding of jobs. Innovation projects focused on SMEs with high growth potential are likely to have a greater direct impact on jobs created and safeguarded.

- There has been some duplication of projects and geographies, particularly of environmental projects. This has meant that targets have been difficult to achieve as projects have a limited pool of beneficiaries.

5.42 Overall, the Priority 1 investment strategy has been skewed towards projects with less of a specialist innovation focus and therefore those which do not tend to have a direct impact on jobs.

## Recommendations

5.43 The following recommendations have been identified for Priority 1. These are split out into recommendations for the remainder of delivery of the current Operational Programme and recommendations for the 2014-2020 Operational Programme.

### Current Operational Programme

#### Focus any under spend on experienced specialist projects

5.44 Our analysis does not suggest that there is a strong case to be made to vire under-spend to Priority 1 projects. However, it is possible that although largely committed, due to material changes, Priority 1 may face an under spend. In this case, there are particular project types which the Priority could focus on. These are:

- Projects delivered by specialist organisations (such as those delivered by, or linked to, further and higher education institutions) which have a solid track record of delivery in the area of support and under ERDF
- Projects which build upon the delivery of an existing and successful project or initiative
- Projects which have a clear focus and definition of the support that will be provided, for example around innovation
- Projects which may have a direct linkage to job creation and safeguarding, such as those which focus on supporting high-growth businesses in the knowledge economy.

#### Revise Targets and sub-Targets under Priority 1 to ensure that they are achievable

5.45 At this stage, it is difficult to very precisely identify the number of targets which will be definitely achieved by the Programme end. There are seven projects in the pipeline equating to £12.4 million in spend, meaning that the achievement of targets associated with 30% of funding under Priority 1 is especially difficult to estimate with any accuracy as detailed targets have yet to be agreed with these projects.

5.46 Also, our understanding of targets contracted to date is based on EPMU reporting systems, yet in some instances material changes have recently been approved or are being considered. In these cases this information may not be reflected in the data and therefore the contracted targets may differ in practice. However, as all funding under Priority 1 has been allocated there is more certainty than with Priority 2 since all funding has not been allocated.

5.47 Our recommendations relating to targets under Priority 1 are based on the approach as set out below:

- Project reviews of 9 projects equating to £15.5 million of Priority 1 funding (35% of total project funding or £50% of funding defrayed and committed). These in-depth discussions with project managers explored the likelihood of achieving targets. Estimating these with any certainty is complicated by potential "optimism bias" as well as the fact that a number of projects are relatively near the start of delivery. In addition, some targets will tend to be realised nearer to the end of a project, such as jobs and environmental results sub targets.

- A review of the spread of targets by all projects under the Priority. This enables identification of whether some targets are reliant on a small number of projects and therefore are subject to greater risk.

- We then estimated the level of targets by reviewing the achieved and contracted targets and applied the percentage we understand is achievable based on findings from the project reviews. In addition, we have factored in the targets which pipeline projects may achieve.

- In the absence of information on the contracted targets for pipeline projects we have uplifted the targets achievable by a further 20%. This is based on the proportion of spend which pipeline projects represent (30%) but assuming that a slightly lower level of targets will be achievable given the restricted time period for delivery, hence 20%.

5.48 Our recommendations on Programme targets under Priority 1 are as follows:

**Table 5-3: Target Recommendations**

| Indicator | Target | Recommendation | Rationale |
|---|---|---|---|
| ***Output Indicators*** | | | |
| 03c No. of businesses assisted- of which a minimum of 5% will be in the environment sector | 7557 | No change | Only achieved 40% to date so unlikely to be exceeded |
| 03b No. of businesses within the region engaged in new collaborations with the knowledge base | 756 | Increase | Target already achieved (120%) |
| L012 No. of businesses involved in collaboration networks | 1575 | Increase | 70% achieved and a total of 177% of target has been contracted |
| L013 No. of SMEs referred for environmental advice | 1000 | Increase | Target already achieved (130%) and 330% of target has been contracted |

| Table 5-3: Target Recommendations | | | |
|---|---|---|---|
| **Indicator** | **Target** | **Recommendation** | **Rationale** |
| L014 No. of SMEs supported to achieve quantifiable improvements in their environmental performance | 750 | Increase | Target already achieved (100%) and 320% contracted |
| ***Results Indicators*** | | | |
| R1 No. of jobs created- of which a minimum of 5% will be in the environment sector | 1390 | Reduce | Only 10% achieved to date and less than 100% of target has been contracted so achievement unlikely |
| R2 No. of jobs safeguarded | 2580 | Reduce | Only 10% achieved to date and less than 100% of target has been contracted so ability to achieve target is greatly hindered |
| LR9 No. of innovation related jobs created | 390 | Reduce | Less than 10% achieved to date and less than 100% of target has been contracted so achievement unlikely |
| R3 No. of businesses with improved performance | 2000 | Increase | 60% of target achieved to date and a total of 210% of target has been contracted |
| LR10 No. of innovation related projects secured/ undertaken- of which at least 50 will be projects secured/ undertaken as a result of collaboration networks | 100 | Increase | Double the target has been achieved (200%) and a total of 290% has been contracted |
| LR11No. of businesses integrating new products, processes or services | 75 | Increase | Target significantly exceeded (820%) |

| Table 5-4: Recommended Priority 1 Target Amendments | | | | | |
|---|---|---|---|---|---|
| **Indicator** | **Target** | **Estimated achievable** | | **Plus pipeline project uplift at 20%** | |
| | | **Number** | **% of Target** | **Number** | **% of current OP Target** |
| ***Output Indicators*** | | | | | |
| 03c No. of businesses assisted- of which a minimum of 5% will be in the environment sector | 7557 | 8290 | 110% | 9950 | 132% |
| 03b No. of businesses within the region engaged in new collaborations with the knowledge base | 756 | 1980 | 262% | 2380 | 315% |
| L012 No. of businesses involved in collaboration networks | 1575 | 2800 | 178% | 3360 | 213% |
| L013 No. of SMEs referred for environmental advice | 1000 | 2070 | 206% | 2480 | 248% |
| L014 No. of SMEs supported to achieve quantifiable improvements in their environmental performance | 750 | 2760 | 369% | 3320 | 442% |
| ***Results Indicators*** | | | | | |
| R1 No. of jobs created- of which a minimum of 5% will be in the environment sector | 1390 | 710 | 51% | 850 | 61% |
| R2 No. of jobs safeguarded | 2580 | 1290 | 50% | 1550 | 60% |
| LR9 No. of innovation related jobs created | 390 | 180 | 46% | 220 | 56% |
| R3 No. of businesses with improved performance | 2000 | 4620 | 231% | 5540 | 277% |
| LR10 No. of innovation related projects secured/ undertaken- of which at least 50 will be projects secured/ undertaken as a result of collaboration networks | 100 | 290 | 289% | 350 | 347% |
| LR11No. of businesses integrating new products, processes or services | 75 | 860 | 1150% | 1040 | 1380% |

### Sub-Indicators

5.49 Priority 1 has a number of sub indicators under R3 No. of businesses with improved performance. These are related to environmental performance and are therefore dependent on a select number of projects.

5.50 The programme did not set targets for the sub-indicators. However, projects are invited to set their own targets, against which they are monitored by EPMU. However, progress against these targets has been limited, in part due to the time lag between support received and the ability to evidence changes to water and energy bills in a short time frame (such impacts are typically quantifiable by comparing one year with the next).

5.51 It was noted, through the project reviews, that for the R3f sub-indicator (No SMEs signing up to the Green Procurement Code), projects no longer work towards this sub-indicator as this is now a paid for service and there are more relevant, free tools available to SMEs. We recommend that this sub-indicator is removed.

## Implications for Potential Future London 2014-2020 ERDF Programme

### Focus on contracting projects delivered by specialists with a proven track record

5.52 Specialist delivery organisations linked to further and higher education institutions, which have a track record in delivering ERDF projects, have tended to have a stronger focus and have been better prepared for EPMU claims requirements. Contracting organisations such as these will ensure that projects are closer aligned to the aims of the Priority and have the necessary reporting and evidence mechanisms in place.

### Provide a clearer steer and definition for innovation projects

5.53 The next Operational Programme should provide a clearer steer and more focused definition for innovation projects. In order to have a real impact on GVA and jobs in the London economy, this priority should focus more exclusively on those projects which assist businesses (particularly high growth businesses) to develop new methods, ideas or products. The definition of innovation and the types of projects which would qualify should be revised to demonstrate this in future bidding documentation. Actions around Proof of Concept and Intellectual Property advice for example, could become more of a focus to help bidders understand what is required. Commissioning projects which focus on supporting SMEs with high growth potential are likely to have the greatest impact on jobs targets.

### Review actions under Themes 1 and 2 with a view to merging some areas

5.54 Some of the actions under Priority 1 have a very small number of projects contracted under them. There is some overlap between the actions under Theme 1 and Theme 2 and it is possible that the broader set of actions under Theme 1 has meant that more projects have been contracted under this area. Merging some actions may therefore be useful to reflect the streamlined nature of the Priority in practice whilst also encouraging projects to have a tighter innovation and knowledge exchange focus. For example, should the same Themes and actions be identified for the 2014-2020 Operational Programme, the following could be considered:

- The Innovation Collaboration action under Theme 2 has been underused (3 projects). A future London ERDF Programme could focus more on this action, than on the more general Promoting Innovation action, given its links with the knowledge economy which gives a clearer focus to the type of support delivered.

- There is some overlap between Promoting Environmental Performance in Theme 1 and Environmental Transformation in Theme 2. Though the latter provides a specific focus, more geared towards innovation, it is the former which has had a greater take up, with more projects contracted under it. Merging these actions may be beneficial to enable greater flexibility.

- The Proof of Concept and Intellectual Property Advice action under Theme 2 has only resulted in 2 projects. There is some overlap with other actions in the Theme (Connection with Knowledge Institutions and Innovation Collaborations). There is a case to be made to subsume this action within one of these to promote it more widely.

### Provide greater strategic overview in project approval to reduce duplication

5.55 There has been some overlap of projects in Priority 1, particularly those which focus on environmental innovation. Projects such as Go Green Plus, Inspire South London and Ecovate have had some elements of duplication in terms of geography and the type of support provided. Ecovate was one of 5 similar projects commissioned in Round 1 and as a result they were part of an informal group called the ERDF 5 who discussed ways around their delivery to ensure that they did not target the same organisations. This degree of overlap could be managed at a more strategic level during the early implementation stage to ensure that similar projects are commissioned to cover different geographies.

### Focus on contracting larger projects but with fewer delivery partners

5.56 A large number of projects were contacted under Priority 1 and as a result the majority of these are small. This has created an unnecessary burden on EPMU as the number of claims are multiplied. The bulk of these were contracted in bidding rounds 1 and 2 and as the Programme has progressed, EPMU has commissioned fewer projects in each bidding round to address this. The 2014-2020 Operational Programme should continue to focus on commissioning a smaller number of projects. These should be larger projects with larger budgets, targets and geographies. However, this should not equate to a large number of delivery partners as this in itself creates time lags and complications in delivery and reporting.

### Review of Targets with a view to reducing the number of Targets under Priority 1

5.57 The relevance of targets should be reviewed and the number of sub targets kept to a minimum to reduce the administrative burden that these contribute to.

- **Targets** – Jobs and GVA targets should be retained given their relevance to innovation and collaboration with the knowledge base activities. However, the level at which these targets are set should be given consideration and be dependent on the design of the Programme, given that they will not be of relevance to most environmental projects.

- **Sub targets** - The number of environmental sub targets should be reduced to 2 or 3 (for example, annual C02 savings and annual cost savings) while 2 or 3 innovation related sub targets could also be included (for example, around patents, intellectual property or proof of concept). Innovation related sub targets are likely to help to steer delivery towards a clearer definition of innovation.

### Incorporate best practice from the current Programme into future ERDF Programmes in London

5.58 Under Priority 1, the 2007-2013 Operational Programme in London has demonstrated some areas of good practice. These are detailed in the table below and should be incorporated into the 2014-2020 Programme, as well as other future Programmes, wherever possible.

**Good Practice in Contracting**

- Contracting projects delivered by specialist organisations such as those delivered by, or linked to, further and higher education institutions or other knowledge base organisations – these projects often link with wider aims of the institution giving them greater impetus
- Contracting projects which build upon the delivery of an existing and successful project or initiative - these projects tend to have a shorter start up period and a clear exit strategy or legacy
- Supporting projects which focus on a specific sector – such projects tend to be clearly defined, have a clear offer and use existing contacts to reach beneficiaries

**Good Practice at Project Level**

- Some projects with a number of delivery partners incorporated stringent internal quality control processes with a monitoring team separate to the project manager to ensure outputs were correctly evidenced and claims correctly processed
- One project delivery lead did a 'secret shopper' of delivery partners to ensure the service was being delivered correctly and also conducted their own Project Engagement Visits with partners to ensure they had all information required
- Projects most successful in evidencing change are those which do a business baseline with their beneficiaries at the start of the project
- Environmental support projects which use a tool to measure savings to businesses were best able to demonstrate the impact of the support
- A number of projects with similar aims and geographies set up a group to meet and discuss their work to avoid duplication of effort

# 6. Review of Priority 2

## Priority 2 Strategy and Objectives

6.1 Priority 2 activities focus on addressing the strategic barriers to growth faced by SME's and entrepreneurs in raising start-up and development finance and in understanding and accessing new market opportunities.

6.2 The priority responds to recognition that businesses are often unable to capture the benefits of innovation and growth if they are unable to access finance. While there is a well functioning risk capital market in London, there are a number of market failures and gaps, including information asymmetry and an 'equity gap' for investments under £2 million. The priority was designed to address the barriers faced by small businesses which are well documented in for example Bridging the Finance Gap (HM Treasury) and the London Annual Business Survey (LDA).

6.3 It was also recognised that businesses often fail due to difficulties in responding rapidly to changing market conditions (LABS 2003-05), with smaller firms in particular lacking the knowledge and capacity to respond to market changes.

6.4 This priority was aimed at building on the London Objective 2 Access to Finance Programme and the experience gained in previous projects to support export development, procurement and access to high value supply chains.

6.5 Priority 2 was allocated €51.8 million, representing £41.8 million at the current exchange rate (€1=£0.80). This amounted to 29% of the overall Programme.

## Delivery Approach

6.6 The delivery approach for Priority 2 focused upon supporting a broad range of partners, including those types of organisations listed below. Priority 2 projects have generally involved a large number of partner organisations delivering one project which has resulted in issues which will be discussed later in this report.

- **Economic and Business Partnerships,** such as HBV and North London Business which have directly provided business support and access to finance. There have been a number of these in London, many with a strong track recording in delivering these types of activities.

- **Higher and Further Education Institutions** operating in targeted parts of London (often local authority areas or sub-regions) to provide brokerage services and access to business support through working with intermediaries such as the Chambers of Commerce. Some of these may not have the strongest track record in delivering business support.

- **Local Authorities**, often focusing on their specific geography to provide advice and support to firms. The majority of these have commissioned delivery partners with a track record in business support to carry out these activities.

- **Delivery organisations** such as Greater London Enterprise, which deliver a wide range of employment and enterprise support projects have been supported to provide help for firms across London as a whole.

- **The London Development Agency** also benefitted from funding to support a number of pan-London projects aligned to BSSP Solutions for Business products such as the Investment Readiness and Finance Readiness projects. This reflects their role in supporting economic development across London and projects link in with their priorities and objectives.  The LDAs closure has resulted in a small number of projects ceasing delivery earlier than expected. In retrospect, it is positive that they provided match funding for relatively few projects.

- **Other specialist organisations** make up a smaller proportion of the total and include the Centre for Engineering and Manufacturing Excellence (a business support, education and training campus located in East London) and the Social Enterprise London CIC.

6.7 Overall, in Priority 2 there appears to be too many organisations contracted to deliver activities. A number of these do not have a strong track record and this is likely to have impacted on delivery.

## Themes

6.8 Two core themes have been identified for Priority Axis 2. For each of these, key actions and indicative activities have been identified and these are summarised below.  Financial allocations have not been set at a theme level (only at the level of each priority).

**Table 6-1 Indicative Actions and Allocations for Themes**

| Theme | Action | Indicative Activities |
|---|---|---|
| 2.1 Enabling access to appropriate investment finance to support innovation and growth | Financial Awareness and investment readiness | • Investment readiness advice and support<br>• Investment matching and/or brokerage<br>• Specialist advice on equity and/or business angel investment in high growth firms; mezzanine finance<br>• Targeted support for high growth start-ups inc. advice, coaching |
| | Debt finance and risk capital | • Provision of 'last resort' finance to address market failures; grants and equity funds to address market gaps. Focus on firms in environmental sector.<br>• Financial support for SMEs in eco-innovation/environmental technology to improve environmental performance |
| 2.2. Improving SMEs' access to new market opportunities | Supporting Internationalisation | • Export advice to SME's<br>• Support to understand and enter international markets<br>• Promoting innovative partnerships with overseas firms/institutions |
| | Widening access to procurement and supply chain opportunities | • Information on procurement opportunities including business to government<br>• Help to enable firms to become 'fit to supply'<br>• Strengthening London components of existing supply chains/help to enter new supply chains<br>• Promoting benefits of supplier |

| | | |
|---|---|---|
| | | diversity/environmental sustainability |
| | Supporting entrepreneurship through new market opportunities | • Support to exploit new market opportunities, especially in the environmental sector<br>• Helping businesses to adapt to new market opportunities |
| Source: Operational Programme | | |

## Outputs and Results Targets

6.9 The framework of outputs and targets for Priority 2 was negotiated by the Programme with the European Commission. They were developed taking account of the experience and data from the 2000-06 Programme. The targets for P2 identified in the Operational Programme are set out in the Table below.

6.10 Priority 2 projects are responsible for around half (51%) of all businesses assisted and jobs safeguarded and over a third of all jobs created (36%). There are specific targets unique to Priority 2 projects related to access to finance (e.g. SMEs engaged in the access to finance Programme) and to exporting (e.g. international joint ventures or contracts). A long list of targets have been set and there are some observations with regards to these, for example:

- The target focused on SMEs supported through the access to finance Programme to improve their environmental management and performance appears to be confused. By encouraging projects to divert their activities away from their core focus, it is likely that this target will be difficult to achieve.

- There appears to be too many targets under Priority 2 and some are surplus to requirements. A fewer number of core targets would have a more positive impact on project delivery, making these more realistic to achieve.

**Table 6-2 Priority 2 Targets and Contribution to Programme Total**

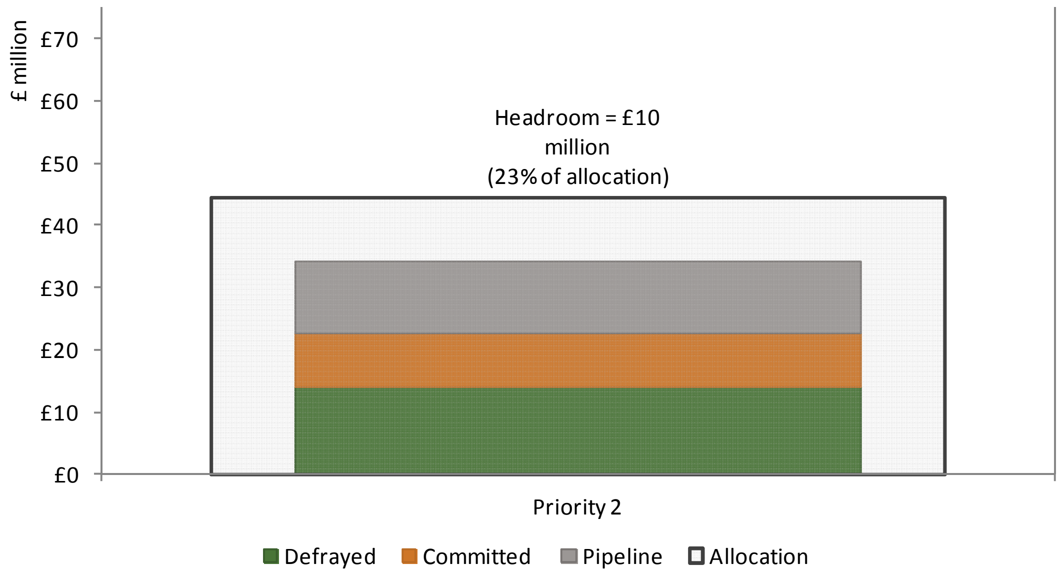
| | Indicator | Total | % of overall Programme target |
|---|---|---|---|
| Outputs | No. of businesses assisted<br>Minimum 5% in environment sector | 7,852 | 51% |
| | No of SMEs engaged in the access to finance Programme | 982 | 100% |
| | No of SMEs supported through the access to finance Programme to improve their environmental management and performance | 100 | 100% |
| | No of SMEs with sales in new markets | 400 | 100% |
| | Successful international joint ventures or contracts | 80 | 100% |
| | No of SMEs using their environmental credentials or products to access new markets or supply chains | 100 | 100% |
| Results | No of jobs created<br>Minimum 5% in environment sector | 1,444 | 36% |
| | No of jobs safeguarded | 2,680 | 51% |
| | New sales generated | €98m | 100% |
| | No of businesses with improved performance | 2,500 | 55.6% |
| Impacts | Increase in GVA | €82m | 28.2% |

# Priority 2 Progress

## Expenditure and Commitments

6.11 Only half of the funding under Priority 2 has been defrayed or committed. There are a number of projects in the pipeline (equivalent to £11.2 million in spend) and approximately 23% of funding under Priority 2 (£10.2 million) is still available to be spent.

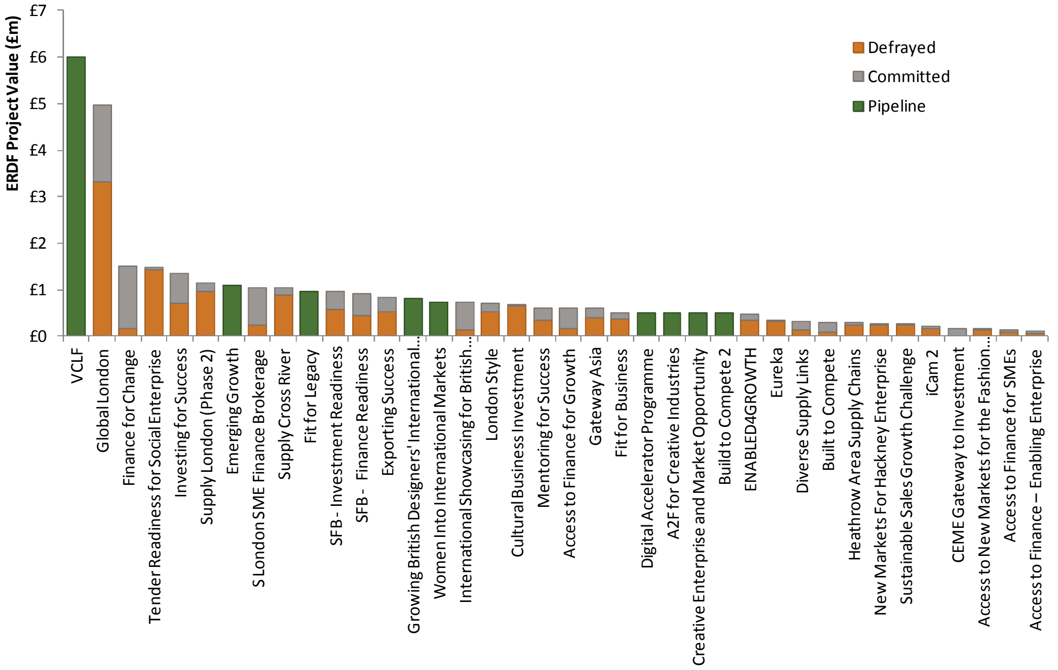
**Figure 6-1: Overview of Expenditure and Commitments in Priority 2**




Source: Programme Performance Data, GLA (June 2012)

6.12 A total of 29 projects have been supported under Priority 2 and a further 9 are in the pipeline. Only six projects will have received more than £1 million in ERDF funding which means that there are a larger number of smaller projects under this priority (as across the Programme as a whole). The largest project to be supported is a £6 million Venture Capital Loan Funding (VCLF) which was contracted in July 2012 (and is therefore identified as a pipeline project).

**Figure 6-2: Contribution of Individual Projects to Spend and Commitments in Priority 2**

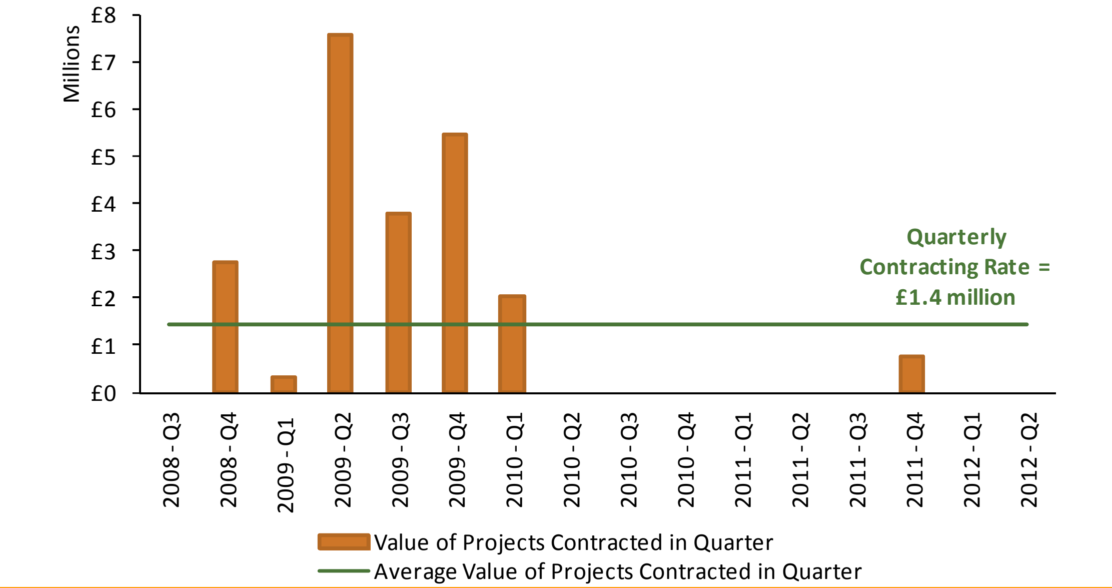



Source: Programme Performance Data, GLA

## Contracting Rate

6.13 The Programme did not set quarterly targets for contracting projects. Nevertheless, the quarterly contracting rates achieved by the Programme to date are highlighted in the chart below. The average quarterly contracting rate for Priority 2 was £1.4 million. Contracting of Priority 2 projects was largely undertaken between the last quarter of 2008 and the first quarter of 2010 during rounds 1 to 3. Bidding round 4 also took place over this period (though this did not focus on Priority 2) and EPMU therefore carried out some contract discussions and negotiations between 2010 and 2011. Less than £1m was contracted in the last quarter of 2011/12 as part of the round 5 projects. A total of eight applications have been approved under round 5 and are in the pipeline.

**Figure 6-3: Overview of Contracting Rate Priority 2**

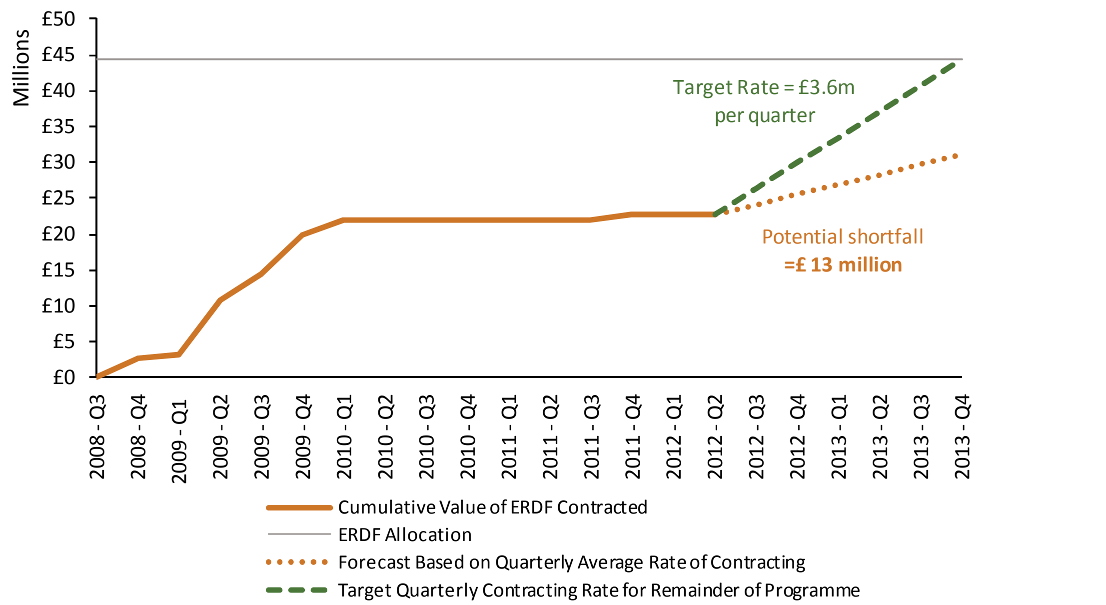



Source: Programme Performance Data, GLA

Note: This analysis is based on the date when the ERDF funding agreement was signed by the project applicant. In some cases, delivery of project activities and defrayment of funds may have preceded this date.

6.14 To the end of 2011, £22.8 million has been contracted under Priority 2. Based on an average quarterly contracting rate of £1.4 million across the Programme to date, there could be shortfall of £13 million. The target rate up to the end of 2013 should be £3.6 million contracted per quarter (this excludes projects in the pipeline).

**Figure 6-4: Forecast Contracting Rate Priority 2**

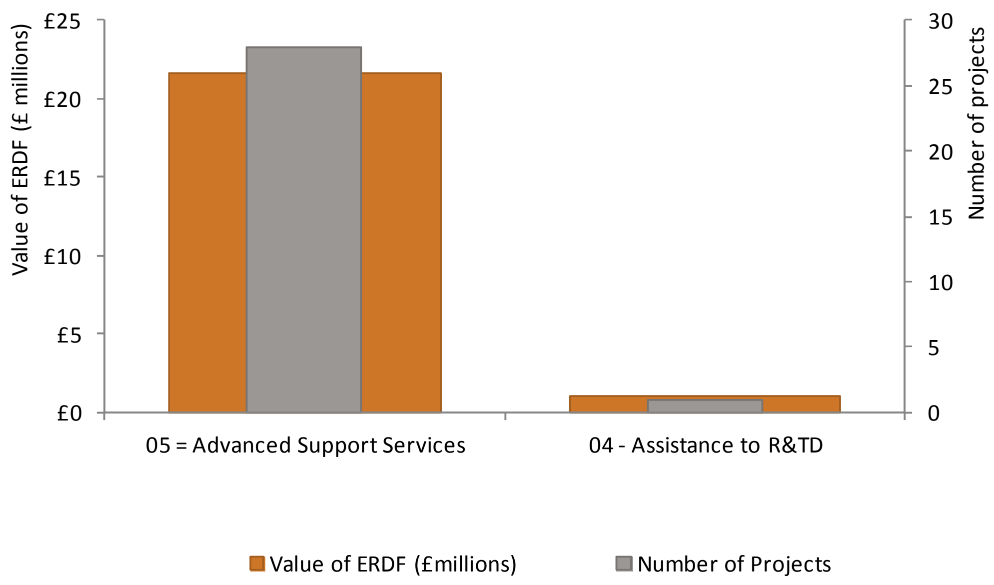



Source: Programme Performance Data, GLA

## Lisbon Compliance

6.15 The majority of Priority 2 projects and spend contracted to date has been flagged as being compliant with the 05 Lisbon code which is focused on advanced support services. Only one project is compliant with the 04 Lisbon code which is focused on Assistance to R&D.

**Figure 6-5: Lisbon Compliance Overview – Priority 2**

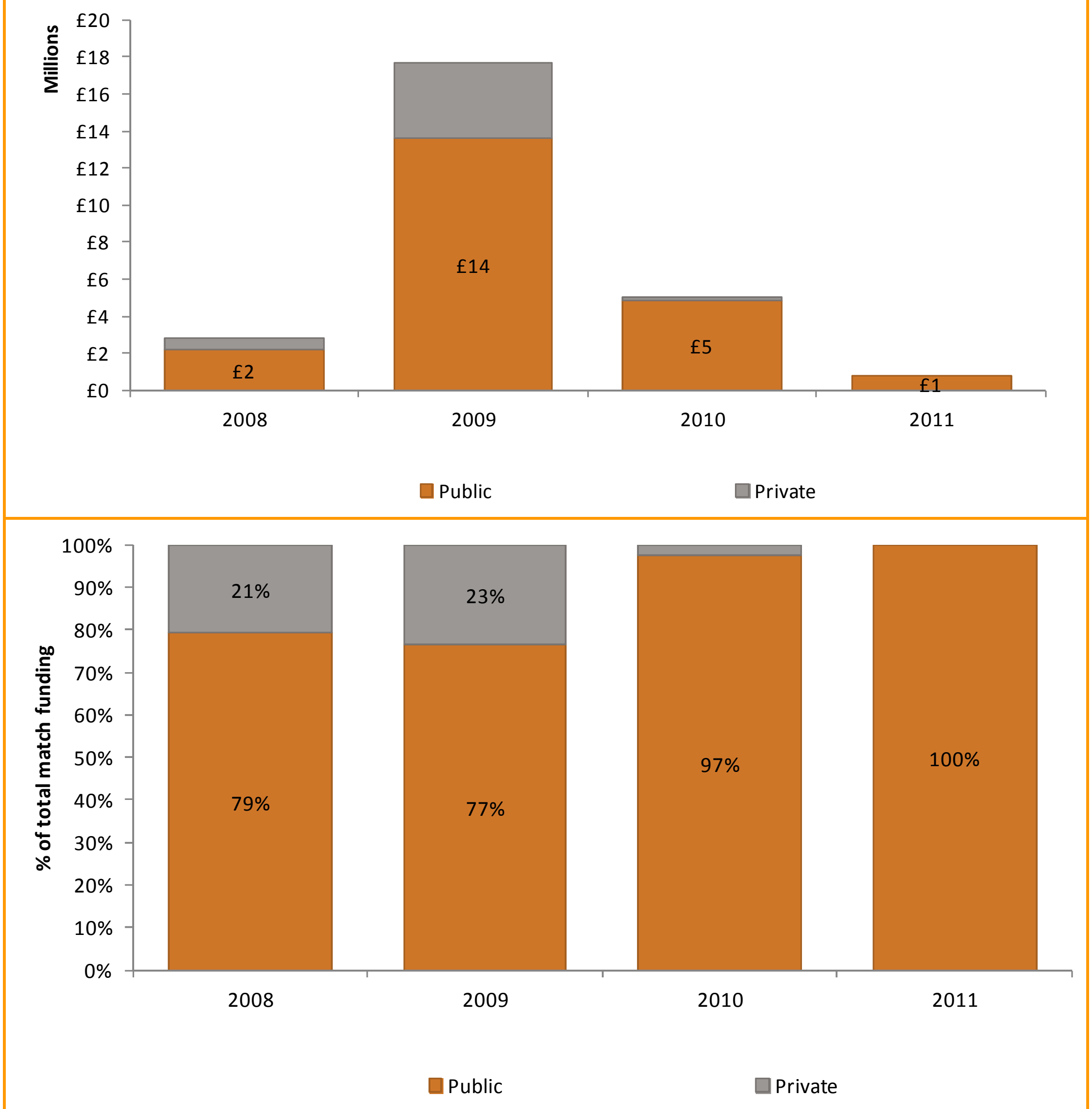



Source: Programme Performance Data, GLA
Note: Multiple Lisbon codes are flagged for some projects so the total value of ERDF will exceed that committed in the Priority

## Match-Funding

6.16 Under Priority 2, the majority of match-funding has been from public sector sources. Surprisingly, public sector match-funding has accounted for an even higher proportion of the total funding as the Programme has progressed (2010/11). The projects which we have consulted with as part of the project reviews have indicated that they have become more dependent on private sector match funding as pressures have been put on public sector resources. In a number of instances this has impacted on delivery (for example some LDA funded projects ceased early on).

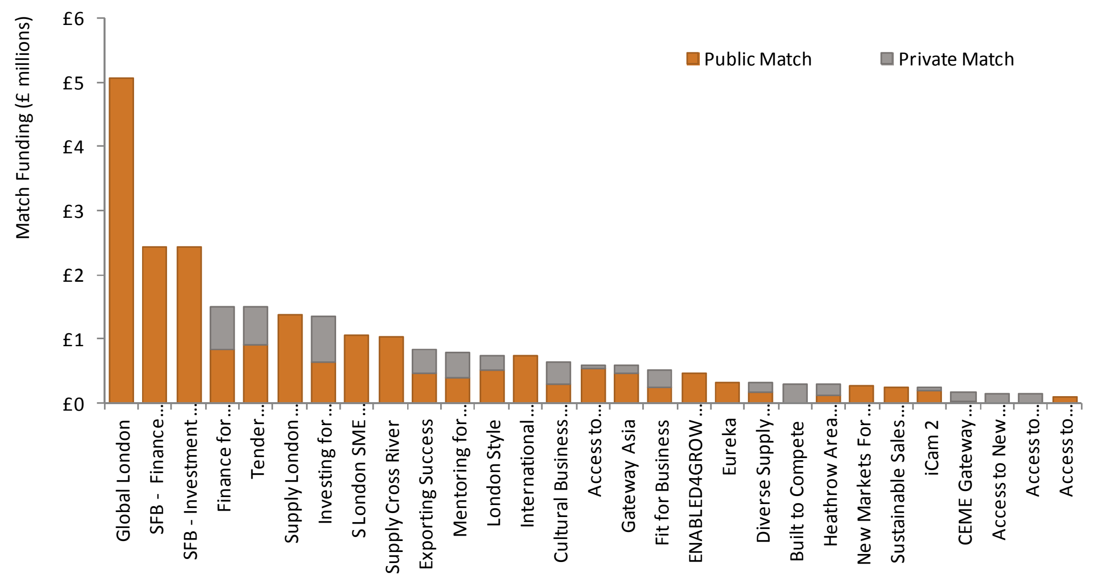
**Figure 6-6: Changing Composition of Match Funding – Priority 2**




Source: Programme Financial Data, GLA
Note: Match funding data is incomplete for some projects so the analysis presented above should be treated an indicative overview.

6.17 As illustrated in the chart below, the majority of projects contracted to date (17 out of 29) have received some private sector match funding. This generally accounts for the smaller proportion of the overall total and there are a number of larger projects which are wholly reliant on public sector funding.

**Figure 6-7: Match Funding Analysis for Priority 2**



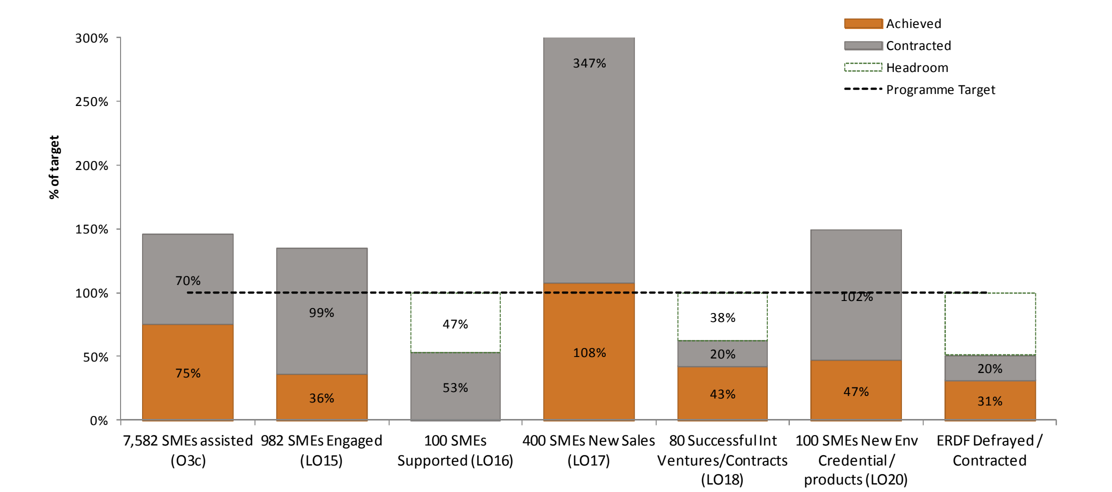

Source: Programme Financial Data, GLA

Note: Match funding data is incomplete for some projects so the analysis presented above should be treated an indicative overview.

## Outputs and Results Targets

6.18 Priority 2 is generally performing well against its output and results targets with a small number of exceptions. Given that only 31% of funding has been defrayed and 20% contracted, it is clear from the chart below that the priority's achievement against some targets is particularly positive. The target for SMEs with sales in new markets (LO17) has already been met and Priority 2 has already achieved 75% of its target for SMEs assisted (O3c). There is only one target where there is no recorded progress and that is SMEs supported through the access to finance Programme to improve their environmental management and performance (LO16).

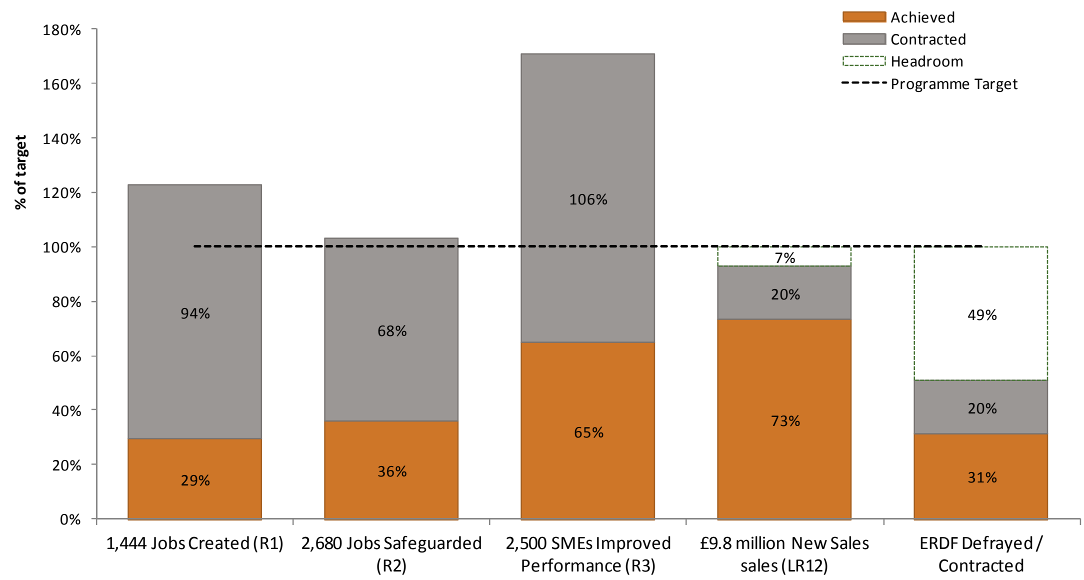
**Figure 6-8: Priority 2: Progress Towards Outputs Targets**




Source: Programme Performance Data, GLA (June 2012)

6.19 Again, there is strong performance against some output targets including new sales generated (LR12) with 73% achieved and businesses with improved performance (R3). Priority 2 is performing less well in terms of its progress against the jobs created (R1) and jobs safeguarded (R2) targets, compared to its progress against other results.

**Figure 6-9: Priority 2: Progress Towards Outputs Targets**

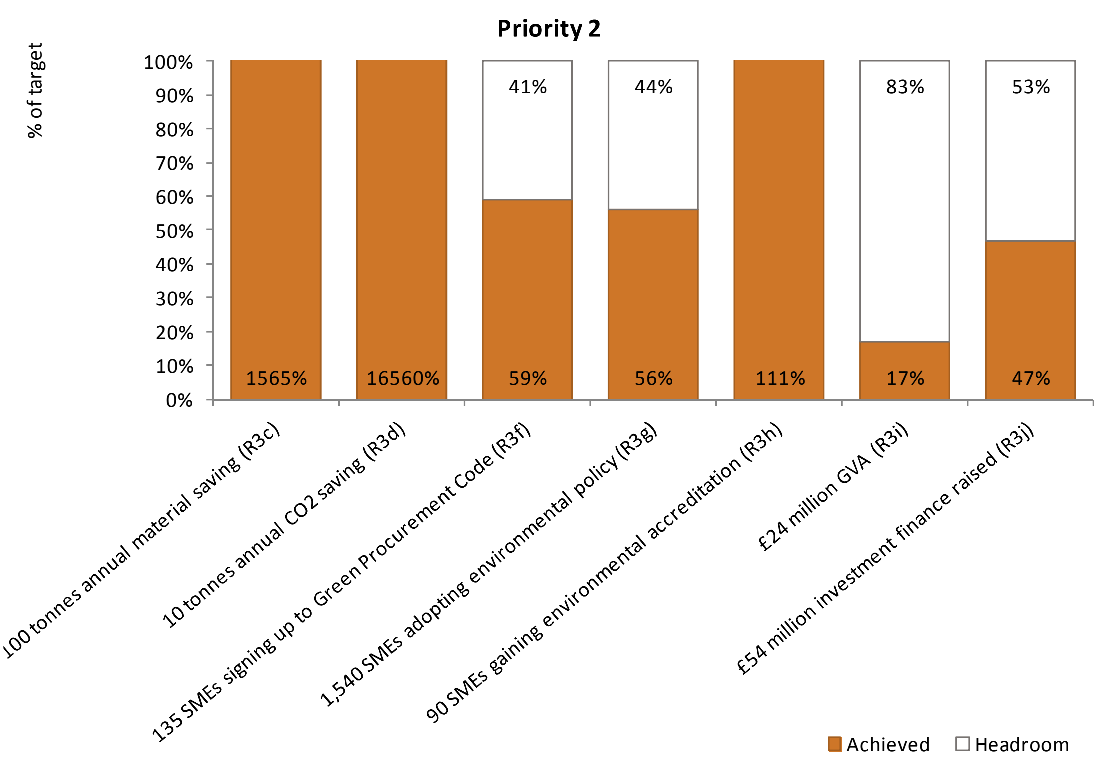



Source: Programme Performance Data, GLA (June 2012)

## Sub-targets

6.20 Priority 2 has seven sub targets against which performance is being measured. Progress against some of these have been strong and there has been over-achievement against three, including annual material saving (R3c), annual CO2 saving (R3d) and SMEs gaining environmental accreditation. Priority 2 is also performing well in terms of progress towards SMEs signing up to the Green Procurement Code (R3f), SMEs adopting environmental policy (R3g) and investment finance raised (R3j). The progress against GVA (R3i) is less strong.

**Figure 6-10 Priority 1 Sub Targets**




Source: EPMU Performance Data, June 2012

## Assessment of Priority 2 Investments

6.21 An assessment of projects supported to date together with pipeline projects has been carried out to understand their fit with the objectives set out in the Operational Programme documents. This demonstrates that there has been a good spread of projects supported across the two themes under Priority 2. Other key points are summarised below:

- **Priority 2 – Theme 1 – financial awareness and investment readiness**: a large number of projects focus on this area. The majority focus on providing advice and support to help firms access finance. Alongside this, many provide investment matching or brokerage to help source finance. Few projects have specifically provided support for high growth firms. Only one pipeline project will support this action.

- **Priority 2 – Theme 1 – debt finance and risk capital:** very few projects have provided this type of support which is surprising given the economic climate. Little support has been provided to projects which specifically provide financial support to improve environmental support and efficiency.

- **Priority 2 – Theme 2 – supporting Internationalisation**: only four projects overall have supported this type of activity to date but there are three further projects in the pipeline. Some projects appear to have focused on internationalisation alongside more general support to open up access to opportunities.

- **Priority 2 – Theme 2 – widening access to procurement and supply chain opportunities**: a large number of projects have supported this type of activity and there are two further projects in the pipeline. These range from pan London projects to those focusing on specific parts of London.

- **Priority 2 – Theme 2 – supporting entrepreneurship through new market opportunities**: the focus of this action is quite vague and there is the potential to support a broad range of projects. This is not the case as relatively few projects appear to have been focused on this area and more specific projects appear to have been supported (e.g. focused on supply chain or internationalisation).

6.22 The key conclusions based on our assessment of the investment fit are summarised below:

### Strong emphasis on general business support under Priority 2, Theme 1 where market failure arguments for intervention are weaker

6.23 Theme 1 is focused on investment finance and the first action centres on financial awareness and investment readiness. The majority of projects supported have responded to this action. A number of these provide advice on how to access funds or attempt to broker finance to support SMEs. Due to the limited funds which have been available and a marked decline in bank loans there have been difficulties in delivering what the projects originally set out to do. There is a sense that a number of projects appear to have focused on providing general business support.

### There has been less emphasis on debt finance and risk capital

6.24 Despite the economic climate and the need for these types of funds, very few projects appear to have focused on debt finance and risk capital projects. Two LDA funded projects were supported but these ceased delivery earlier than anticipated due to the closure of the LDA and the absence of the Single Pot. It was always intended that the Programme would deliver venture capital loan and/or equity funds through SME Wholesale Finance Limited (SMEWFL), an RDA 'Section 5(2)c' company set up to administer VCLFs under the 2000-6 ERDF and ESF Programmes (in common with several other RDAs). The intention was that this could match 2000-6 'legacy' funding to the new Programme, however an ERDF funding agreement was only signed in 2012.

6.25 There were a number of reasons for the delays which include (i) agreeing match funding for the scoping study, and (ii) seeking clarity from EC and Government as to rules relating to a co-investment model, and (iii) agreeing a match funding package. SMEWFL's discussions with the EIB and the LDA concerning provision of further match funding were not successful (due in latter case to the large budget cuts imposed on LDA prior to its abolition). A fund manager was procured by SMEWFL in 2012.

6.26 It is disappointing that a fund was not established sooner since there appears to be strong demand for this type of project (particularly as a result of the recession). This does highlight the difficulties of establishing a complex model such as this for delivering ERDF funded activity and EPMU should identify lessons which may help to accelerate delivery of similar projects in the future.

### A large number of supply chain projects have been supported which may have resulted in duplication

6.27 Supply chain projects appear to account for nearly half of all projects supported to date. These range from pan London projects to those focused on specific parts of London. There is no evidence that these are complimentary projects and it does appear that there is potential for some duplication or competition amongst these projects.

## Assessment of Priority 2 Investment Fit and Pipeline

**Table 6-3 Summary Assessment of Priority Investments and Pipeline Projects within Priority 2**

| Theme | Action | Investment Fit and Gaps | Strength of Pipeline |
|---|---|---|---|
| 2.1 | Financial Awareness and investment readiness | • The majority of the projects respond to this action (10 out of 11 projects under 2.1) although one project responds to both.<br>• The strongest focus is on investment readiness advice and support on propositions for securing access to finance, with nine of the projects focusing on this amongst other activities.<br>• Investment matching/brokerage to direct firms to sources of investment is also a feature of this Programme with six of the projects supported to date indicating that they will carry out this type of activity.<br>• Only one project supported to date specifically set out to provide specialist advice on equity/business angel investment in high growth firms. In reality, this project does not appear to have been as focused as this in terms of delivery and also provides general investment readiness/matching.<br>• Only one of the projects supported to date appears to specifically set out to provide targeted support for high growth start-ups. | • Only one pipeline project will support this action. |
| | Debt finance and risk capital | • A much smaller proportion of the projects supported by ERDF specifically set out to respond to this action (only two out of the eleven projects supported to date).<br>• One appears to specifically provide 'last resort finance'<br>• One specifically focuses on SMEs in the technology sector | • No pipeline projects will support this action. |
| 2.2 | Supporting Internationalisation | • Four out of the 18 projects supported under this theme are responding to this action specifically.<br>• Another three projects respond to this action together with helping to open up supply chain opportunities (responding to the action below). | • Three pipeline projects will specifically support this objective. |
| | Widening access to procurement and supply chain opportunities | • Eleven out of the 18 projects respond to this action specifically<br>• A further three projects respond to this action together with helping to support internationalisation (as identified above). | • Two pipeline projects specifically support this objective (focusing on accessing supply chain opportunities as a result of regeneration). |
| | Supporting | • Three out of 18 projects supported under 2.2. appear to be responding to this | |

| | | | |
|---|---|---|---|
| | entrepreneurship through new market opportunities | action as well as responding to the actions above (exporting / supply chain development).<br>• This is a rather open focus as such it is positive that fewer projects have been supported | • Two pipeline projects specifically support this action. |

## Conclusions

6.28 Only half of the funding under Priority 2 has either been defrayed or committed towards projects. Despite this, there has been good progress towards a number of outcome and results targets. There is some variation across these however and there is a particular concern over the job related targets and other targets which do not appear to have been well thought out at the start of the Programme (more information on these is provided in the recommendations).

6.29 The portfolio of investments shows a strong fit with the objectives of the Operational Programme for Priority 2.There appears to be a fairly equal spread of projects across the two themes within this priority. However, there are a number of observations around the projects which have been supported:

- The access to finance projects have been heavily impacted by the recession and a lack of finance. There appears to have been strong demand for access to finance support, particularly projects providing a direct link to finance. The lack of finance available, for example through banks has hindered a number of projects and this is particularly the case since the vast majority of projects have focused on advice/brokerage.

- There is concern that a number of the projects supported have tended towards the provision of more general business support where the market failure argument for intervention is weakest. In line with this, the Programme could have provided more specialist support (e.g. equity funds or support for high growth businesses).

- Very few projects have specifically targeted high growth firms where the market failure argument for public sector intervention is greatest (alongside support for disadvantaged groups).

- A large number of supply chain projects have been supported and delivery appears to have been largely uncoordinated which may have led to duplication and/or competition in parts of London. A more strategic or planned approach would have been more favourable for this type of activity.

- The projects which have supported internationalisation appear to have mainly focused on support for exporting. This is in line with the current government focus. The projects which appear to have worked well have been those which are associated with UKTI (as a well known brand), however any projects supported under ERDF would need to demonstrate that they are adding value.

6.30 Other observations from this assessment are:

- A number of projects reported that there is demand for business support from start-up companies which is not a current focus of the Programme. In the future, EPMU could consider whether the Programme should support this target group but there would need to be a strong market failure argument.

- A large number of smaller projects have been supported under Priority 2 and it is likely that fewer, larger projects may have had a greater impact. There have also been a large number of partner organisations supporting delivery. This has resulted in significant problems as a result, particularly in terms of monitoring and management of these projects.

## Recommendations

### Current Programme

#### Focus remaining Priority 2 resources on projects which are deliverable within the timescales and which can lead to long lasting economic benefits

6.31 Approximately £10.2 million or 23% of the overall allocation is available under Priority 2 (after the current pipeline projects are taken into account). It is important that this funding is spent on projects which can be delivered within the Programme timeframes (spent by December 2015) and contribute to sustainable economic growth or job creation (as stated earlier). Based on our research, the following types of activities appear to be relevant:

- **Financial instruments to support firms**: we do not believe that there is a significant case for expanding or extending the brokerage and signposting projects since the main current issue is the limited funding available, for example through banks. Instead, there is a case for financial instruments such as Venture Capital Loans Funds (VCLF) and equity funds which can make finance available to firms to meet identified equity / funding gaps. One project is being supported and is currently in the pipeline and there may be potential to expand upon this. The focus should be on supporting high growth firms or potentially supporting disadvantaged groups.

- **Exporting**: there are three projects in the pipeline and as such a strong case would need to be made to support additional projects beyond this. There is strong policy support for projects which can assist with exporting due to the positive impacts which result for the economy. Our research to date suggests that projects which can build on UKTI's success and well known brand to support firms are more likely to succeed. However, any further projects will clearly need to demonstrate added value beyond what is already provided e.g. support for trade missions may be appropriate.

- **Support for start-ups / SMEs with high growth potential:** there is a potential case for providing targeted support for high growth firms if there is a strong market failure rationale. The project reviews have indicated that there is demand in this area.

6.32 The evaluation suggests that the case for supporting other types of projects such as supply chain projects is less strong.

#### Revise the following targets for Priority 2 to reflect delivery to date and possible future projects

6.33 There are a number of factors which make it difficult to be too precise when recommending changes to the targets and we have generally erred on the side of caution. These factors include the fact that there are a number of projects in the pipeline (£11.2 million in spend) and £10.2 million in additional funding which is still available under Priority 2. This equates to around 50% of funding under Priority 2, so our conclusions regarding where the priority is heading is therefore based on only half of the resources available so far.

6.34 Our recommendations are based on the following approach, which make the best use of available information:

- Project reviews (7 projects have been reviewed under Priority 2 equating to £12.2 million funding or 53%) involving a detailed discussion with project managers around the likelihood of achieving the targets which have been set. This is difficult in some instances since some of the projects have up to two years of additional delivery left.

- A review of the targets which have been set for all projects supported to date. This has been important to understand whether the achievement of targets is reliant on a small number of projects and therefore the risk of achieving this is significant.

6.35 In order to take account of pipeline and future spend, we have adjusted the figures by a factor of 1.5 instead of 2[6]. This reflects the fact that towards the end of the Programme the cost per job may be higher since they will have less time to deliver.

**Table 6-4: Target Recommendations**

| Indicator | Target | Recommendation | Rationale |
|---|---|---|---|
| ***Output Indicators*** | | | |
| No. Of businesses assisted<br>Minimum 5% in environment sector | 7,852 | Increase | 75% achieved to date |
| No of SMEs engaged in the access to finance Programme | 982 | Maintain Target (potential to increase in light of remaining funds) | Low achievement (36%) but significant contracted |
| No of SMEs supported through the access to finance Programme to improve their environmental management and performance | 100 | Reduce | 0% progress to date |
| No of SMEs with sales in new markets | 400 | Increase | 108% achieved to date |
| Successful international joint ventures or contracts | 80 | Maintain Target (potential to increase in light of remaining funds) | 43% achieved to date but 38% needs to be contracted |
| No of SMEs using their environmental credentials or products to access new markets or supply chains | 100 | Increase | 47% achieved to date |
| ***Results Indicators*** | | | |
| No of jobs created<br>Minimum 5% in environment sector | 1,444 | Reduce (potential to maintain in light of remaining funds) | 29% achieved to date but significant contracted |
| No of jobs safeguarded | 2,680 | Reduce | 36% achieved to date |

[6] If the remaining 50% of resources yet to be committed were to perform in the same way as the current 50% committed we would double the forecast achievement, using a ratio of 1.5 in effect applies a 50% reduction in future performance to reflect the shorter time to the end of the Programme period and lack of certainty about delivery

| Table 6-4: Target Recommendations | | | |
|---|---|---|---|
| **Indicator** | **Target** | **Recommendation** | **Rationale** |
| New sales generated | €98m | Increase | 73% achieved to date |
| No of businesses with improved performance | 2,500 | Maintain (potential to increase in light of remaining funds) | Achieved 65% to date but project reviews suggest low levels achievable |
| ***Impacts*** | | | |
| Increase in GVA | €82m | Maintain (potential to increase in light of remaining funds) | Only £4 million achieved to date |

**Table 6-5: Recommended Priority 2 Target Amendments**

| Indicator | Target | Estimated achievable | | Plus pipeline | |
|---|---|---|---|---|---|
| | | Number | % of Target | Number | % of Target |
| ***Output Indicators*** | | | | | |
| No. Of businesses assisted<br>Minimum 5% in environment sector | 7,852 | 8,500 | 108% | 12,800 | 163% |
| No of SMEs engaged in the access to finance Programme | 982 | 980 | 100% | 1,470 | 149% |
| No of SMEs supported through the access to finance Programme to improve their environmental management and performance | 100 | 10 | 10% | 20 | 20% |
| No of SMEs with sales in new markets | 400 | 1,500 | 375% | 2,320 | 580% |
| Successful international joint ventures or contracts | 80 | 80 | 100% | 120 | 150% |
| No of SMEs using their environmental credentials or products to access new markets or supply chains | 100 | 150 | 150% | 220 | 220% |
| ***Results Indicators*** | | | | | |
| No of jobs created<br>Minimum 5% in environment sector | 1,444 | 1,060 | 73% | 1,600 | 110% |
| No of jobs safeguarded | 2,680 | 1,470 | 54% | 2,210 | 82% |
| New sales generated | €98m | €190m | 193% | €294m | 300% |
| No of businesses with improved performance | 2,500 | 2,690 | 107% | 4,020 | 160% |
| ***Impacts*** | | | | | |
| Increase in GVA | €82m | €82m | 100% | €123m | 150% |

### Reduce number of Targets under Priority 2

6.36 It is clear from our review of Priority 2, that there are more targets than necessary. Some targets could be removed from the current Programme if the European Commission were to accept this change or alternatively they should be removed from any future Programme which supports similar activities. The following targets appear to add little value:

- Number of SMEs supported through the access to finance Programme to improve their environmental management / performance. There is not a direct link between providing access to finance and supporting environmental objectives. In fact, it could be argued that this target could divert support away from activities which projects are intended to deliver (e.g. access to finance) and which lead to greater economic benefits.
- Number of SMEs using environmental credentials / products. A similar argument could be applied to this target since this target could divert support away from activities which projects are intended to deliver.
- Successful international joint ventures or contracts. Whilst this target is relevant to export projects, it does appear to be surplus to requirements.

### Reduce duplication and ensure that projects are more joined up

6.37 Under Priority 2 it is clear that a number of projects have been supported which could have led to some duplication. This is particularly the case under the supply chain projects which have been supported but also relevant to some access to finance and exporting projects. There are a number of pan-London projects which have been supported as well as more local projects and it has been suggested to the team during the evaluation that some projects could well be competing for beneficiaries. Furthermore, there are economies of scale to be achieved from supporting a smaller number of larger projects, which are more co-ordinated.

### Ensure that there is a strong market failure argument for remaining projects which are supported

6.38 Some of the projects which have been supported have turned into more general business support projects, whose original rationale has altered. This is more obvious for some of the Access to Finance projects which have been supported. It is likely that this has occurred because of the limited finance available for firms (particularly in the light of a significant reduction in bank lending) but may also be due to an increase in demand for more general business support (particularly in light of the recession).

6.39 Market failure is one of the key criteria used to appraise an application and projects have been consistently tested against it during the selection process. EPMU should ensure that a test of the market failure rationale for intervention is strictly enforced at the appraisal stage (i.e. particularly ensuring that appraisers have a strong understanding of the different market failure rationale) and should monitor how projects respond to market failure during their delivery.

### Incorporate best practice from the current Programme into future ERDF Programmes in London

6.40 Under Priority 2, the 2007-2013 Operational Programme in London has demonstrated some areas of good practice. These are detailed in the box below and should be incorporated into the 2014-2020 Programme, as well as other future Programmes, wherever possible.

- Supporting **access to finance** projects which provide equity funding to firms. The VCLF project which has recently been contracted could potentially provide a good model for the future. Others such as the Finance Readiness project also appear to be successful particularly where they have managed to draw in funds to provide finance for firms.
- Supporting some projects which **respond to national or regional strategic objectives**. This includes those focusing on the fashion sector or on social enterprises.
- The fact that some projects have been led **by local partnerships located within the community** has enabled projects to successfully respond to the needs of local groups. Despite recommendations around supporting larger projects, consideration should be given to ways in which these local groups can be involved.
- Some projects indicated that they had **consulted with other projects** delivering similar activities to share lessons and reduce any duplication, which is positive.
- A number of projects have reported strong progress against some indicators such as **new sales generated** (exceeding project/Programme targets). These impacts were largely reported across a small number of projects but this is extremely positive in demonstrating that the ERDF Programme is leading to positive economic impacts (though the small number of firms reporting a significant change does confirm that careful targeting of ERDF in the future is the optimum approach to take).
- Under Priority 2, EPMU appears to have supported a broad range of projects which are closely **aligned to the original objectives set out in the OP document** (with a very small number of exceptions).

# 7. Review of Priority 3

## Priority 3 Strategy and Objectives

7.1 Priority 3 focuses upon the creation of better, more efficient and environmentally sustainable places for London's businesses. The Operational Programme stresses that this Priority is not concerned with supporting the needs of specific businesses, it is about transforming physical environment where this is a barrier to economic performance. The headline OP objectives for the priority were:

- Providing high quality business premises for SMEs which incorporate high environmental specification

- Creating high quality environments for businesses that are serviced by renewable and co-generated decentralised energy systems and innovative waste management and water resource support systems.

- Promoting innovative and emerging environmental technologies through pilot and demonstration projects.

7.2 Geographically, the Operational Programme identified a focus on London's regeneration areas and particularly East London (24% of identified Brownfield land in London is within the sub-region). It suggested that these areas are the most vulnerable to economic and environmental shocks, identifying flood protection (beyond 2100) as a specific long-term threat. It was also acknowledged that the environmental quality of a number of these areas was detrimental to their evolution as modern business areas.

7.3 Priority 3 is intended to tackle infrastructure issues investing in areas where the long term value is greatest. It was envisaged that Priority 3 would complement Priorities 1 and 2 by removing barriers to business growth and innovation.

7.4 Based on current exchange rates, Priority 3 was allocated £58.6m, this accounts for 40% of the Programme. An additional £8m is required to fund the delivery of the Thames Cable Car in 2012.

## Delivery Approach

7.5 The delivery of Priority 3 can effectively be split into two elements; those projects which have been grant funded and the establishment of the London Green Fund.

7.6 The seven grant funded projects have shared £8.8m with grants ranging from £207,500 for Barking and Dagenham Sustainable Managed Workspace to £3m for Belvedere Green Links in Bexley. The delivery partners for this have been:

- **Local Authorities** – Four of the seven projects have been delivered by local authorities. Two of these have been major physical improvements to areas close to industrial sites, the remaining 2 have been development and improvement of managed workspace.

- **Business Partnership:** Park Royal Partnership was awarded funding to deliver access and public realm improvements on London's largest industrial estate.

- **Higher Education Institution:** Ravensbourne College delivered new eco-efficient office space with their new campus on the Greenwich Peninsula

- **Charitable Trust:** The Land Trust led on the delivery of flood storage and environmental improvements at Dagenham Washlands.

7.7 In addition to the lead delivery partners, the Homes and Communities Agency, RSPB and DEFRA have supported the delivery of projects, in some cases playing a strategic role.

7.8 As outlined above, £8m of grant funding was also provided to Transport for London (TfL) for the delivery of the Thames Cable Car in 2012.

7.9 The remaining £50m of Priority 3 (£100m fund in total) has been deployed through the JESSICA initiative. It was recognised then that this was a strategically important delivery mechanism as any returns from investments can be used to support other urban development projects. Also, it would help to attract additional resources and enable a greater input from financial experts (primarily the European Investment Bank).

7.10 JESSICA (Joint European Support for Sustainable Investment in City Areas) is a new initiative that has been developed in partnership between the European Commission (EC) and the European Investment Bank (EIB) which allows Member States to use financial engineering instruments to support urban development. Investment in these projects must be by way of loan, equity, or guarantee.

7.11 This money was allocated to the **London Green Fund**, which is currently composed of two Urban Development Funds (UDFs):

- **The London Energy Efficiency Fund (LEEF):** Originally this fund was intended to focus on Decentralised Energy and primarily upon the London Thames Gateway Heat Network. Following initial feasibility work, this was amended to create a fund which focussed upon energy efficiency in public (and quasi-public) buildings. The fund was allocated £25m of ERDF funds matched with £25m of LDA funding; RBS co-invested £50m at fund level creating a total fund of £100m. Amber Green Sustainable Capital were procured as fund managers.

- **The Foresight Environmental Fund (FEF) – Also referred to as 'the Waste Fund':** This fund was established as initially proposed; **investing in the reprocessing materials that are currently disposed of and building capacity for energy from waste.** £18m was allocated from ERDF matched with £18m from the London Waste and Recycling Board (LWaRB). Foresight Group was procured as fund manager.

7.12 An additional £12m (50% ERDF and 50% LDA match funding) is held within the London Green Fund, partners are currently exploring options for investing this money. This is likely to be used to establish an additional UDF, focussing on energy efficiency in relation to social housing.

7.13 The evolution of the London Green Fund is discussed in more detail later in this section.

## Themes

7.14 Only one theme was identified for Priority 3. Six Actions have been outlined and with a number of indicative activities are provided against each:

| Theme | Action | Indicative Activities |
|---|---|---|
| 3:1- Environmental improvements to employment premises, sites and their surrounding environments, support for de-centralised energy, water and waste systems and support for business clusters | Creating Low or Zero Carbon Employment Sites and Premises with High Accompanying Environmental Specifications | • Creation of low or zero carbon flexible business incubator and move on workspace that also has exemplar wider environmental specifications.<br>• The adaption and/or refurbishment of existing buildings to make them more sustainable and environmentally friendly. Innovative proposals for delivering very low or carbon- neutral new buildings will also be considered. |
| | Contributing to a Low Carbon Economy Through Installing Low or Zero Carbon Energy | • Delivery of demonstration and pilot de-centralised co- generation and distribution systems to deliver new innovative approaches to supplying low carbon and heat electricity to businesses where required.<br>• Delivery of demonstration projects that install on-site solar, wind, biomass geothermal, anaerobic digestion, fuel cells or any other appropriate renewable energy generating technologies. |
| | Delivery of environmental systems, services, and facilities and land remediation to support sustainable urban regeneration activity | • Activities that provide integrated energy, water and waste systems, services and facilities as part of physical sustainable urban regeneration activity enabling businesses located in these areas to achieve high levels of environmental efficiency. |
| | Addressing the economic risks of environmental degradation and climate change to employment sites, areas and individual businesses | • Leveraging investment from the public and private sectors into regeneration areas by delivering strategic investment for environmental enhancement in and adjacent to important employment generating areas suffering from environmental degradation and socio- economic deprivation. |
| | Supporting the Development of Business Clusters | • Promoting the development of clusters of businesses, particularly those providing eco-efficiency and environmental services. |
| | Promoting the Benefits of Environmental Sustainability in the Built Environment and Sharing Best Practice | • ERDF- branded marketing and promotion to ensure the London business community understand and value the benefits and opportunities associated with operating in or locating to sustainable business premises, settings and locations, particularly in areas of regeneration. |

Source: Operational Programme

## Outputs and Results Targets

7.15 The Framework for outputs and targets for Priority 3 are outlined below. There are a number of these and, in part, this is related to the variety of different approaches taken by partners and the subsequent indicators selected.

7.16 Output indicators for Priority 3 are also highly project specific, with a number of indicators providing 100% of the Programme target from only one project. This obviously creates some potential risk of under achievement should one of these projects fail to deliver.

7.17 EPMU would like to change the target focused on the ‘area of workspace gaining BREEAM rating of ‘Excellent’ or equivalent (metre square)’ floorspace to include ‘Very Good’ developments. This is due to the fact that it has proven to be difficult to achieve an ‘Excellent’ on a refurb rather than a new build.

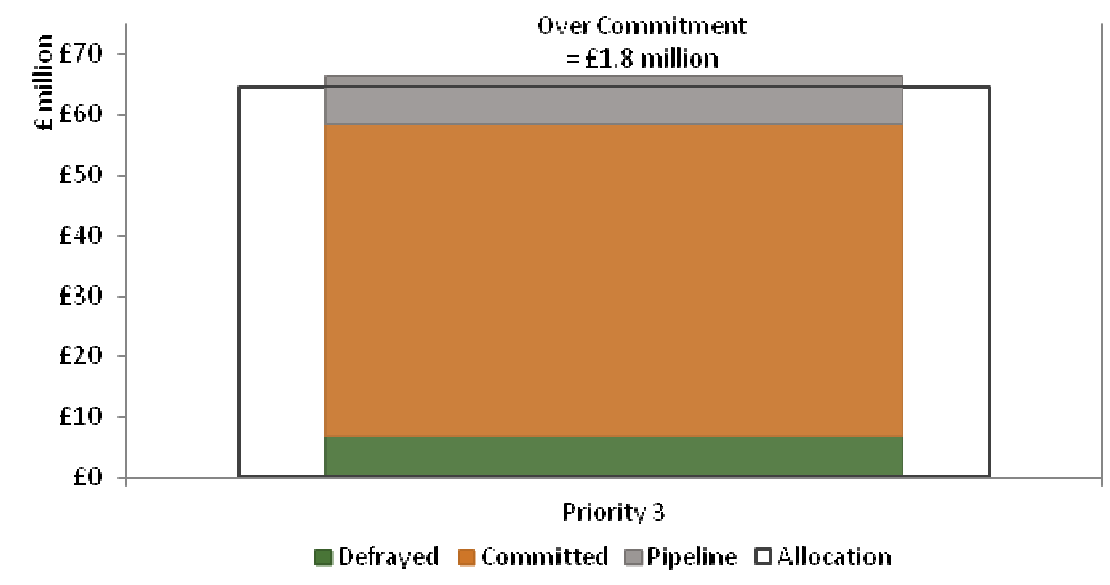
| **Priority 3 Targets and Contribution to Programme Total** | | |
|---|---|---|
| **Output Indicators** | **Target** | **% of Total Target** |
| Brownfield land reclaimed and/or redeveloped (hectares) | 5 | 100% |
| Total new or upgraded floor space (metres squared) | 5,500 | 100% |
| No. of demonstration projects show- casing latest co-generation or renewable energy technology systems | 5 | 100% |
| No. of employment sites with environmental improvement Programmes to address identified deficiencies in accessible open space and/or access to nature in employment areas | 5 | 100% |
| Area of workspace gaining BREEAM rating of ‘Excellent’ or equivalent (metre square) | 2,250 | 100% |
| Proportion of projects incorporating sustainable drainage systems | 100% | 100% |
| Proportion of projects installing de- centralised co- generation or renewable energy generation technology | 100% | 100% |
| Area of Green and Brown roofs created (metres squared) | 200 | 100% |
| Volume of additional flood storage capacity created (metres cubed) | 500 | 100% |
| Length of water course or restored or significantly enhanced (in metres) | 500 | 100% |
| **Result Indicators** | | |
| No. of jobs created | 1,182 | 29% |
| No. of SME assisted | 4,286 | ?? |
| Additional capacity of renewable an co- generated energy production (MW) | 40 | 100% |
| New or refurbished buildings with environmental specification in line with the London Plan (metres squared) | 5,500 | 100% |
| No. of new or existing businesses locating to eco- efficient, high- quality work spaces | 55 | 100% |
| No. of businesses supplied with low or zero carbon energy | 100 | 100% |
| **Impact Indicators** | | |
| Increase in GVA | €164m | 56% |
| Increase in London’s capacity to generate de- centralised co-generated and renewable energy | 20% | 100% |

## Priority 3 Progress

### Expenditure and Commitments

7.18 Almost all of the funding for Priority 3 has been defrayed or committed. Indeed, once the £8m earmarked for the Thames Cable car is included P3 is actually over committed by £1.8m.

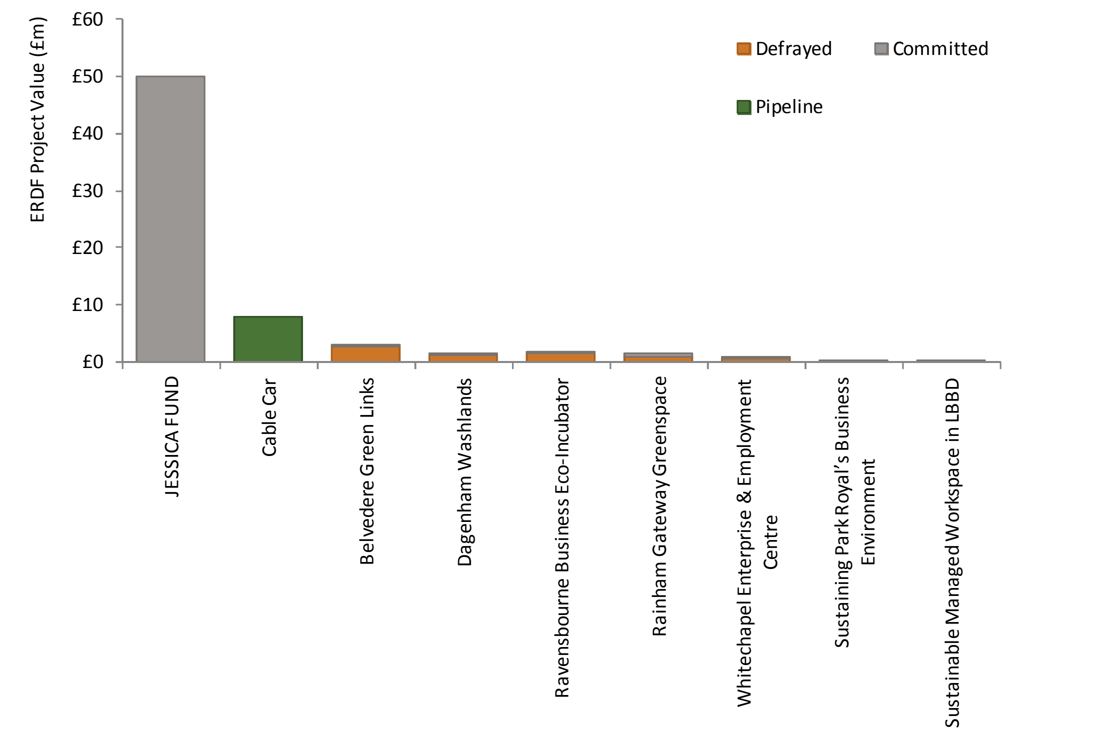
**Figure 7-1: Overview of Expenditure and Commitments in Priority 3**




Source: Programme Performance Data, GLA

7.19 The successful allocation of funds should however, be considered in the context of the use of JESSICA to establish the London Green Fund. Although £50m has been allocated to this, only a small proportion of this has been invested in projects. There is also £12m of the money committed to the London Green Fund which has yet to be allocated (most likely to a third UDF).

**Figure 7-2: Contribution of Individual Projects to Spend and Commitments in Priority 3**




Source: Programme Performance Data, GLA

7.20 The allocation of such a significant proportion of Priority 3 to JESSICA and the London Green

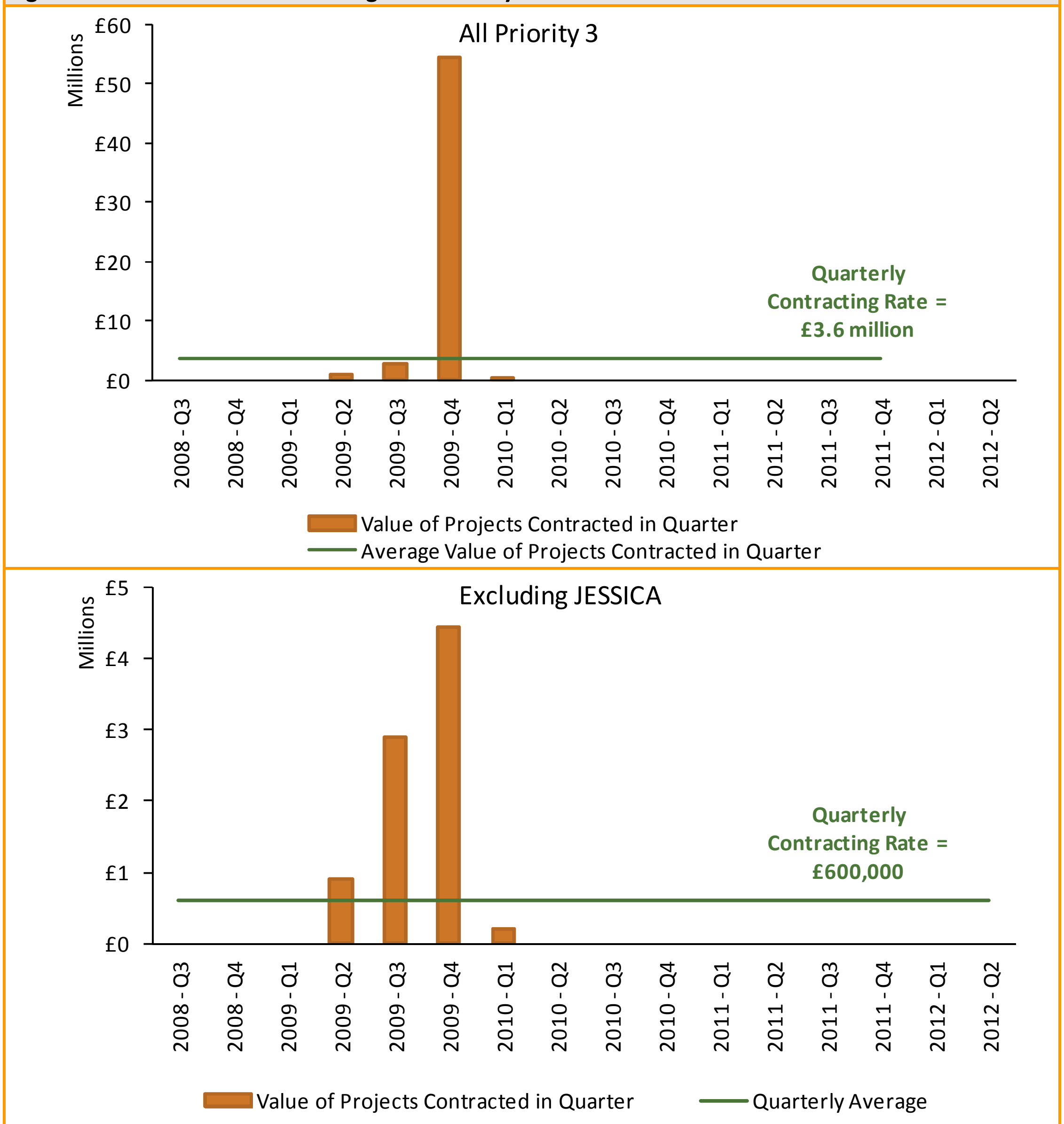
Fund has had a significant impact upon project monitoring and achievement.

## Contracting Rate

7.21 The Programme did not set quarterly targets for contracting projects. Nevertheless, the quarterly contracting rates achieved by the Programme to date are highlighted in below.

7.22 To better understand the contracting rate for Priority 3 it is helpful to remove the JESSICA allocation. Grant projects included within Priority 3 were all approved in one year between Q2 2009 and Q2 010. This is because since Round 1 (2008), there has been no further bidding rounds open to Priority 3 projects. The only pipeline project is the Thames Cable Car which has now been approved and which was negotiated outside of the usual bidding round process.

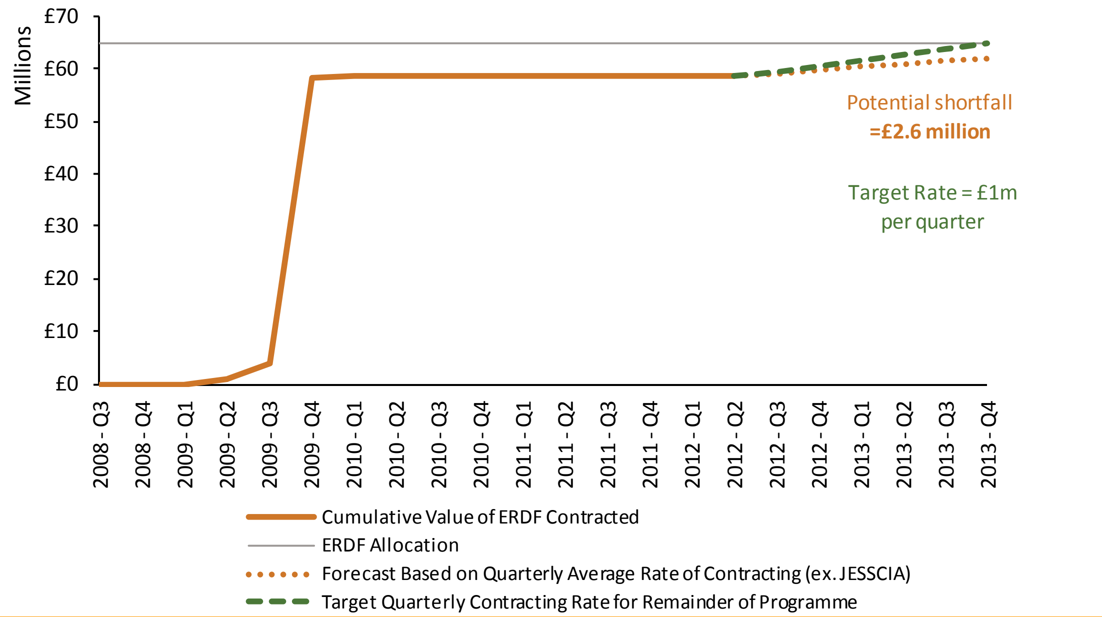
**Figure 7-3: Overview of Contracting Rate Priority 3**




Source: Programme Performance Data, GLA. Note: This analysis is based on the date when the ERDF funding agreement was signed by the project applicant. In some cases, delivery of project activities and defrayment of funds may have preceded this date.

7.23 Based on the current forecast contracting rate, there will be an under-spend of £2.6m. This however, is not a true indication of the current position as the Cable Car funding will actually lead to a slight overspend on forecast spending.

**Figure 7-4: Forecast Contracting Rate Priority 3**

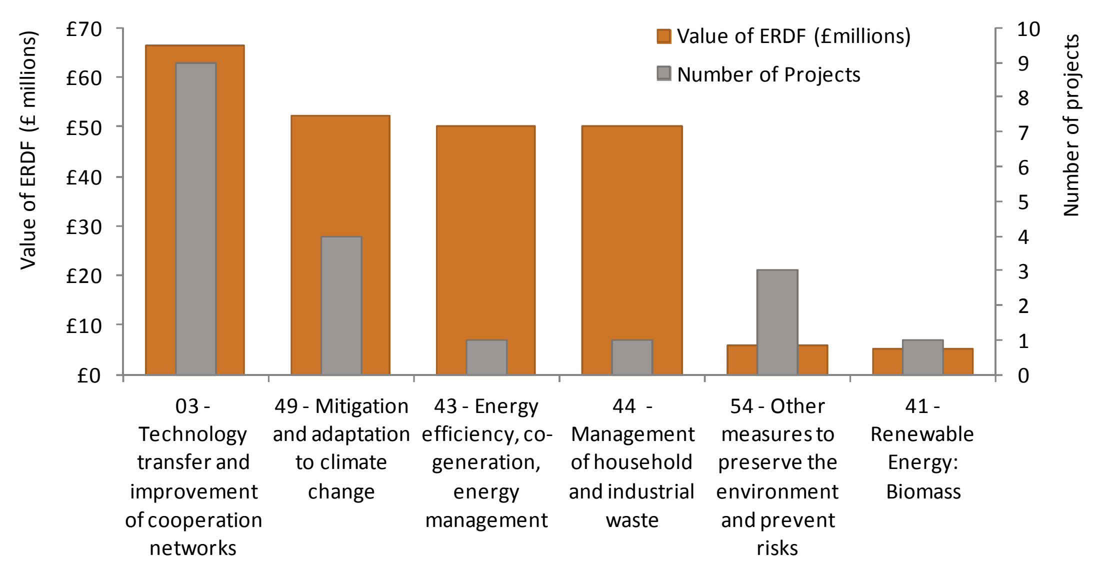



Source: Programme Performance Data, GLA

## Lisbon Compliance

7.24 Projects within Priority 3 are able to demonstrate compliance with a number of Lisbon Codes. All of the projects are compliant with 03, with around half compliant with code 49 (Mitigation and adaptation to climate change). JESSICA allocations are compliant with codes 43 (Energy efficiency and co-generation) and 44 (Management of waste). Three projects are compliant with code 55 whilst 1 is complaint with 41 (Renewable Energy: Biomass).

**Figure 7-5: Lisbon Compliance Overview – Priority 3**

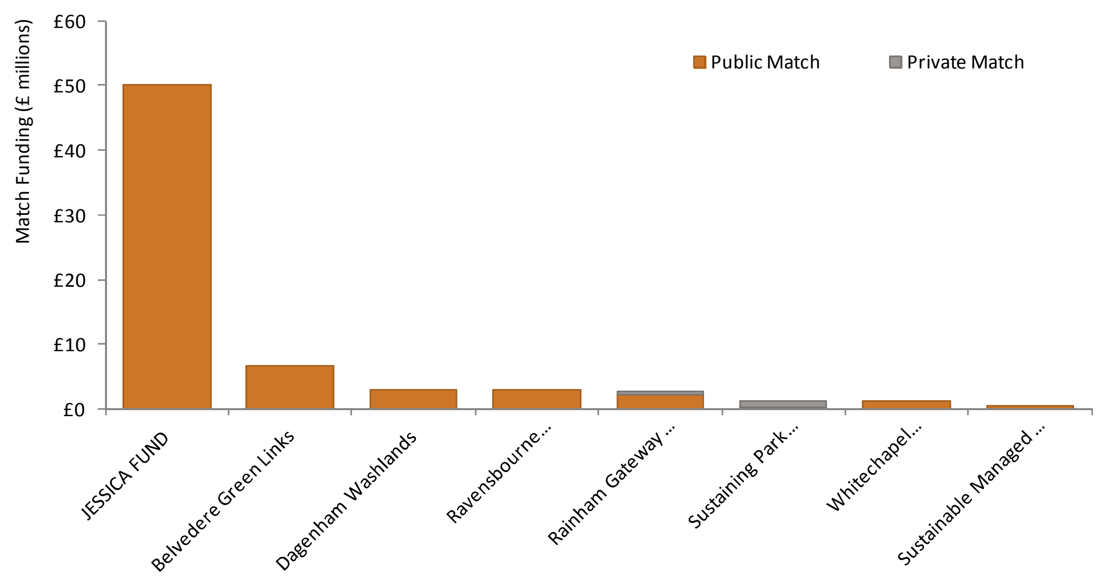


Source: Programme Performance Data, GLA
Note: Multiple Lisbon codes are flagged for some projects so the total value of ERDF will exceed that committed in the Priority

## Match-Funding

7.25 The vast majority of match funding at project level has been provided by the public sector, this includes £50m match funding provided by LDA and LWaRB to the JESSICA fund. Only the Sustaining Park Royal's Business Environment project provided private sector match funding (£778,500).

**Figure 7-6: Match Funding Analysis for Priority 3**




Source: Programme Financial Data, GLA
Note: Match funding data is incomplete for some projects so the analysis presented above should be treated an indicative overview.

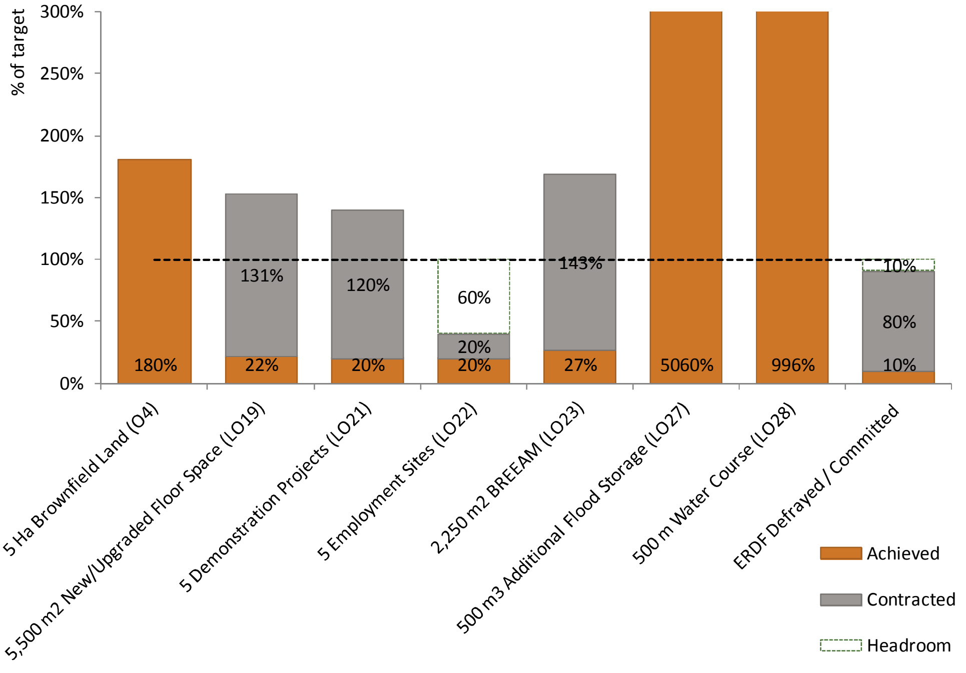
7.26 It is worth noting that the Urban Development Funds which administer the London Green Fund have also been responsible for securing additional private sector match funding from co-investors.

## Progress against Targets

7.27 The presence of JESSICA and the wide variety of targets included within Priority 3 mean that performance against indicators is mixed.

7.28 In terms of output indicators, two of the indicators have substantially over achieved (these relate to additional flood storage and watercourse improvement; and the target on Brownfield Land). In other cases, all of the output targets are contracted to be achieved with the exception of the Number of Employment Sites with Improved Environment and Access. Based on the information below three of the five targets will not be achieved.

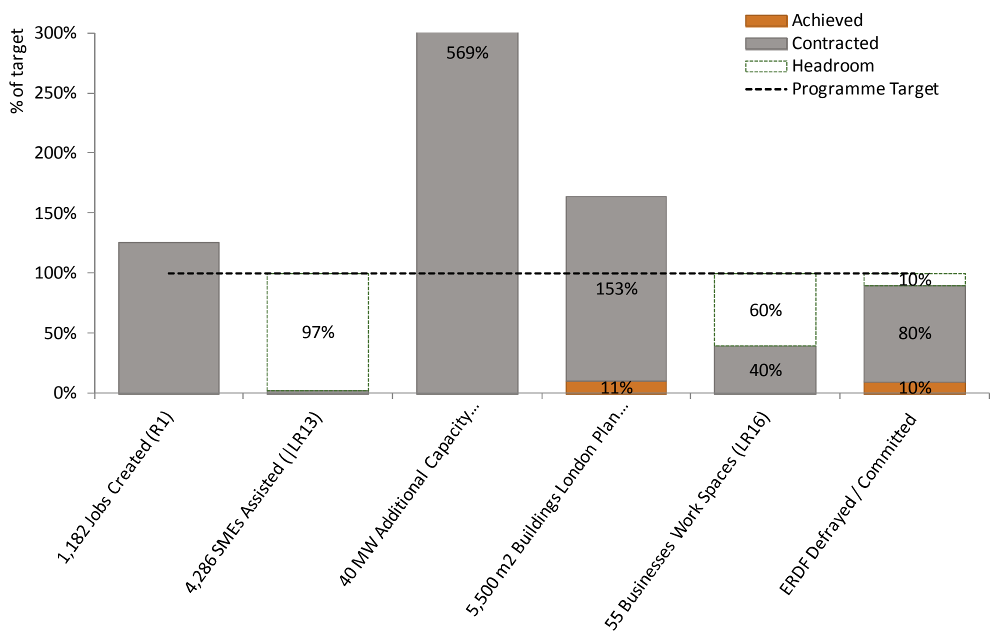
**Figure 7-7: Priority 3: Progress Towards Outputs Targets**




Source: Programme Performance Data, GLA

7.29 Performance against results targets is a lot more uncertain. Although four of the six indicators are contracted to be delivered, there has been limited delivery to date. There is also likely to be significant underachievement again for LR13 (SMEs Assisted) and LR16 (Business Locating in High Quality Efficient Workspaces).

**Figure 7-8: Priority 3: Progress Towards Results Targets**




Source: Programme Performance Data, GLA

## Assessment of Priority 3 Investments

**7.30** Once again, the impact of so much of Priority 3 being allocated but not necessarily spent within the London Green Fund means that it is perhaps premature to make definitive judgements on the appropriateness of delivery to date. It is however fair to say that **there are strong links between the aspirations for Priority 3 as outlined within the Operational Programme and the projects themselves.**

7.31 More specific observations in relation to the investment fit for Priority 3 projects are outlined below:

### A small number of projects has created certainty in delivery but uncertainty in output achievement

7.32 The fact that Priority 3 is inherently focussed upon capital projects means that, compared to Priorities 1 and 2, this strand of funding has delivered fewer projects, which has created some identifiable risks in terms of the achievements of certain target indicators. That said, capital projects delivered in Priority 3 have well defined timelines and, on the whole have been delivered in a timely manner with few examples of 'on site' delays in delivery.

### New partnerships have been developed, but there is limited evidence to date of innovation in delivery

7.33 The range of delivery partners who have been involved to date has been good. They have been supported by delivery partners who have, on the whole, been drawn from the public sector – partners suggest that this has lead to the development of some partnerships which may not have been realised otherwise. Thus far, there has been limited evidence of the involvement of specific industry experts related to low carbon industries; again, this is an area which may well be addressed through JESSICA involvement in the future.

### The development of the London Green Fund has paid close attention to the objectives of Priority 3

7.34 Although the London Green Fund has yet to make any significant investments, in the development of both UDFs partners have ensured that the objectives of Priority 3 have remained to the fore. Even where there have been issues with viability, delivery against the Operational Programme has not been compromised.

### A significant amount of investment on environmental improvement

7.35 Of the grant funding distributed for Priority 3, a significant amount of resources has been allocated to environmental improvement, flood alleviation and waterway improvements. Whilst these can be traced back to the Operational Programme and subsequent policy and strategy documents, it could also be argued that this is a disproportionate investment compared to investment in business spaces. It is also difficult to directly trace links between these improvements and direct business benefits for companies already located in areas where investment has taken place. Nevertheless, it is worth stating that any flood alleviation scheme would have required a Cost Benefit Analysis to be completed prior to approval and therefore it may be possible to track a financial benefit for these schemes.

### Workspace projects are difficult to deliver in the current economic climate

7.36 The three projects which have delivered new business space have all experienced some issues in attracting businesses to locate within the spaces once they have been complete. This has, in part been attributed to the pressures placed upon SMEs in the current economic climate, but also relates to changes in working patterns and subsequent accommodation needs; projects will need to respond to these in the future.

### Decentralised energy projects have also proved difficult to bring forward

7.37 In the London Green Fund and grant funded projects, decentralised projects have proved difficult to bring forward. The major example of this was the viability of major Decentralised Energy investments in east London which led to the refocusing of the Energy Efficiency UDF, however, similar issues on the Greenwich Peninsula also prevented Ravensbourne Eco-Incubator from benefiting from CHP. It is however, also worth noting that it is expected that the Foresight Environmental fund will invest in some energy from waste projects which will provide new energy sources for London.

### There is limited evidence of activity to support clustering of companies within low carbon sectors

7.38 There is very little evidence of Priority 3 having undertaken any activity which supports clustering and agglomeration benefits for companies working in low carbon industries. This observation should be considered in the context of these sectors in the UK economy and particularly issues of sector definition and market maturity which have limited the ability to develop a clear sector proposition outside of low carbon energy activities.

7.39 The table below provides an assessment of the investment fit of priority investments to date:

**Table 7-2: Priority 3: Summary Assessment of Priority Investments and Pipeline Fit**

| Theme | Action | Indicative Activities | Investment fit and Gaps |
|---|---|---|---|
| 3:1- Environmental improvements to employment premises, sites and their surrounding environments, support for de- centralised energy, water and waste systems and support for business clusters | Creating Low or Zero Carbon Employment Sites and Premises with High Accompanying Environmental Specifications | • Creation of low or zero carbon flexible business incubator and move on workspace that also has exemplar wider environmental specifications.<br>• The adaption and/or refurbishment of existing buildings to make them more sustainable and environmentally friendly. Innovative proposals for delivering very low or carbon- neutral new buildings will also be considered. | • Three of seven projects have been contracted to deliver workspace which has focussed upon eco-efficiency and the highest possible BREAM standards.<br>• Four of the projects have included public realm improvements which are aimed at improving the surrounding business environment<br>• Of the four projects which have supported public realm improvement in the vicinity of major business areas 2 of the projects (Rainham Gateway Greenspace and Dagenham Washlands) have not been delivered on or within existing business areas.<br>• Only one of the projects in P3 dealt specifically within the adaptation of an existing building, although the London Energy Efficiency Fund (LEEF) is focussed specifically on delivering this |
| | Contributing to a Low Carbon Economy Through Installing Low or Zero Carbon Energy | • Delivery of demonstration and pilot de-centralised co- generation and distribution systems to deliver new innovative approaches to supplying low carbon and heat electricity to businesses where required.<br>• Delivery of demonstration(AD) projects that install on-site solar, wind, biomass geothermal, anaerobic digestion, fuel cells or any other appropriate renewable energy generating technologies. | • Small amount delivered where new premises have included low carbon elements<br>• Two of the workspace projects included within Priority 3 have included Combined Heat and Power within delivery( one of these projects (Ravensboure Eco-Incubator) has been identified specifically as a demonstrator project.<br>• The refocusing of the JESSICA funding from decentralised energy to energy efficiency has limited the extent to which this will be delivered<br>• Potential Energy from Waste projects (AD and Biomass) within the Foresight Environmental Fund (Waste UDF) should provide enhance performance in this area |
| | Delivery of environmental systems, services, and facilities and land remediation to support sustainable urban regeneration activity | • Activities that provide integrated energy, water and waste systems, services and facilities as part of physical sustainable urban regeneration activity enabling businesses located in these areas to achieve high levels of environmental efficiency. | • Four projects will deliver improvements to existing, established business areas to make them more efficient as well as more attractive and accessible.<br>• There currently a lack of support to support businesses to capitalise upon these improvements within their location |
| | Addressing the economic | • Leveraging investment from the public and | • Links between projects and locations with higher than average |

| | | | |
|---|---|---|---|
| | risks of environmental degradation and climate change to employment sites, areas and individual businesses | private sectors into regeneration areas by delivering strategic investment for environmental enhancement in and adjacent to important employment generating areas suffering from environmental degradation and socio- economic deprivation. | socio-economic deprivation is strong; all projects to date re delivered within the vicinity of areas of deprivation<br>• The vast majority of funded projects have been delivered in London's areas for opportunity and intensification<br>• Four projects are targeted specifically on improving the physical environment in the vicinity of industrial estates |
| | Supporting the Development of Business Clusters | • Promoting the development of clusters of businesses, particularly those providing eco-efficiency and environmental services. | • Limited evidence to date of investment supporting business clusters.<br>• Initial investment from the Foresight Environment Fund is within London's Sustainable Industries Park in Dagenham |
| | Promoting the Benefits of Environmental Sustainability in the Built Environment and Sharing Best Practice | ERDF- branded marketing and promotion to ensure the London business community understand and value the benefits and opportunities associated with operating in or locating to sustainable business premises, settings and locations, particularly in areas of regeneration. | • Some positive promotion of completed project in local media, including open days and mayoral endorsements/openings<br>• Limited evidence of systematic ERDF branding of projects to date. |

## JESSICA and the London Green Fund

7.40 The spending of JESSICA and the establishment of the London Green Fund is clearly one of the most important elements of the current Operational Programme. However, as analysis above shows, at such an early stage in the fund's lifespan it is difficult to make definitive conclusions and recommendations. Analysis below gives consideration to the evolution of the London Green fund to date and its relationship with Priority 3.

### The Evolution of the London Green Fund

7.41 Despite the fact that investments have yet to deliver a significant impact or return on investment, the establishment of the London Green Fund has been identified by stakeholders as one of the key successes of the Operational Programme. There are a number of lessons which can be learned from the evolution of the Programme to date.

#### Objectives

7.42 Following the decision to pursue JESSICA as a mechanism for funding projects within London, a number of objectives were identified to underpin the funds development:

- Contribute to a low carbon economy through installing low or zero carbon energy systems;
- increase the capacity of renewable and co-generated energy production by at least 40 MW;
- increase the number of businesses supplied with low or zero carbon energy;
- reduce the waste going to landfill and the $CO_2$ emission in London;
- help boost the market for investing in the environmental sector by providing the finance to de-risk environmental projects and thereby demonstrate the financial feasibility of such investments; and
- help stimulate complementary regeneration activities that will enable sustainable economic growth in London's deprived areas.

7.43 Despite significant changes to the structure of the fund, these have remained at the heart of the London Green Fund's development and have been central to its evolution over the last 2 years.

#### Establishment of Holding Fund

7.44 A significant amount of resource was invested at an early stage to evaluate models for administering JESSICA. At an early stage the European Investment Bank (EIB) was appointed as holding fund manager. This 'front-end' work and the early establishment of a holding fund (alongside the commitment to the original objectives) have proved important in ensuring the successful evolution of a robust delivery model.

7.45 Establishing the holding fund, enabled the LDA and its partners to take the time to undertake adequate feasibility work and ensure that the UDFs were both strategically and commercially relevant. Critically, this included the decision to refocus from a Decentralised Energy UDF (a decision which partners agree could have averted potential delivery issues in the future). It also meant that funds did not risk being 'decommitted' and returned to the EC under the EC's 'n+2' rule, which sets annual targets for programme expenditure. Without the holding fund, London would have effectively been penalised for choosing to operate a VCLF, given the length of time needed to set up and procure UDFs that are now responsible for about a third of programme expenditure.

7.46 The holding fund has also generated interest which contributed to what was a significant project planning period (2.5 years).

### Match Funding

7.47 The establishment of the holding fund meant that match-funding had to be secured at an early stage. Pressures on public sector funding meant that an investment of £50m cash by the LDA was not feasible at the time of the holding-fund set up, and other partners and mechanisms were explored. The London Waste and Recycling Board committed £18m cash. It was agreed that the most viable way to secure remaining funding was to ring-fence, by way of a standard Land Registry restriction, a portfolio of LDA owned sites that would be committed to the holding fund. The LDA would retain the legal title to each of the sites in the portfolio but could substitute any sites with another or with cash. Sites committed to the holding fund can be used by projects to be supported by the fund; however, this would require LDA, and possibly Mayoral/central government, approval. The sites placed in the holding fund were subsequently substituted for cash match funding of equivalent value by the LDA, prior to its abolition.

7.48 The response to the potentially difficult issue of match funding has been identified as an areas where the LDA/GLA was responsive and innovative in responding to the challenge, particularly given that it required cross-departmental working and negotiation.

### Procurement of Fund Managers

7.49 The procurement of fund managers was undertaken by the GLA. The key roles envisaged for the UDF fund manager were identified as:

- investing in and leading the negotiation and structuring of financial deals in line with the investment strategy;
- securing parallel co-investments;
- monitoring compliance and risk in accordance with the Operational Plan; and
- recommending and manage appropriate exit strategies.

7.50 At the procurement stage it was not envisaged that the UDF fund managers would be involved in the actual development/preparation of the projects prior to investment, in reality they have had to take on elements of this work.

7.51 Amber Green Sustainable Capital was procured as fund managers for the Energy Efficiency

UDF, whilst Foresight Group was commissioned to manage the Waste UDF.

7.52 The procurement process was recognised by partners and fund managers alike as being efficient and effective. This and the model developed to administer JESSICA funds more generally have been identified as successful; indeed, the London Green Fund model has been replicated in other UK regions and has formed the basis of the new UK Green Investment Bank.

## UDF Performance to Date

7.53 As outlined above, it is still relatively early in the lifespan of the 2 UDFs, as such, there is a limit to the conclusions that can be made or judgements which can be drawn. There are however, some important observations which are worth of consideration by partners.

### The Waste UDF – Foresight Environmental Fund (FEF)

7.54 The Waste UDF will provide equity finance for the construction or expansion of:

- waste to energy facilities;
- value added re-use, recycling or reprocessing facilities; or
- other facilities displacing fossil fuel such as 'waste to fuel'.

7.55 In the early stage of the delivery of the FEF, the following has been noted:

- The fund has been successful in securing co-investment at a Programme level, this has however, proved challenging as investors prefer to invest on a project by project basis, which has impacted upon the desirability of the fund.
- The pipeline of projects is fairly strong and there is confidence that investment will be allocated by Q4 2015, that said, the pipeline is probably less strong than originally envisaged.
- In some cases a lack of project readiness has impacted upon the ability to deliver investments in the form they were originally envisaged. In some cases a significant amount of resources has been invested in getting projects ready for investment. This has taken the fund manger beyond the original roles outlined at a procurement stage.
- There is some ambiguity about where the funds can be invested and on occasion investments outside of London (but with a London benefit) have not been pursued.
- Foresight have also been procured as fund managers for the UK Green Investment Bank, on the whole, partners believe this will create some useful synergies; there are however, others who believe that this could create competition for the fund.
- Foresight involvement in UK GI has created useful synergies.

7.56 In general, the FEF appears to be a successful and viable fund which will not only deliver against the objectives for Priority 3, but will also deliver a return which can be reinvested in future operational Programmes.

### The Energy Efficiency UDF – The London Energy Efficiency Fund (LEEF)

7.57 The Energy Efficiency UDF was set up to focus on providing debt financing (where applicable, equity can be provided) to projects involving the adaptation or refurbishment of existing public and voluntary sector buildings to make them more sustainable and environmentally friendly.

7.58 In the early stage of the delivery of the LEEF, the following has been noted:

- With hindsight, the rationale for the LEEF has been slightly flawed in that it has been unable to lend at a rate competitive with the Public Work Loan Board, as such, the pipeline is severely limited and there are concerns about the ability of the fund to invest £100m by Q4 2015.

- The potential pipeline from the London RE:FIT Programme has not materialised which has again impacted upon the pipeline for investment.

- The fund has yet to make any investments, that said a major deal is nearing completion, this may provide some momentum towards other investments in the future

- There is clearly a need to allow broader investments to improve the fortunes of the fund. The lack of ability to lend to housing and particularly new build are identified as issues by a variety of partners.

7.59 Compared to the FEF, the LEEF is providing some concern to partners. Clearly the fund has been a victim of change in circumstance and, as such, there may be a need for partners to work with fund managers to agree how the fund could evolve to ensure both impacts and returns are maximised.

## JESSICA in London: Summary Conclusions

7.60 JESSICA and the London Green Fund have been an important innovation within the current Operational Programme and there is acknowledgement that it is an area where partners have achieved genuine innovation and have put strong foundations in place for future investment of this type. As previously stated the London Green Fund is also clearly linked to the objectives of Priority 3 and, in theory should provide significant added value to performance in this area in the long term.

7.61 Other conclusions which can be drawn on the delivery of the JESSICA element of the Programme to date are:

- The economic downturn has clearly impacted upon the London Green Fund and has impacted on the flow of projects (as potential project partners have refocused corporation objectives and priorities)

- Both UDFs have an identified pipeline and although this is varied, there is some concern that the LEEF does not have enough projects to meet investment targets.

- Taking projects from identification to investment is clearly more time consuming and resource intensive than expected.

7.62 Partners are currently exploring options to allocate the remaining £12m currently in the JESSICA holding fund. A variety of options have been considered, the favourite being a new UDF focussing upon energy efficiency and social housing; a procurement process to establish this UDF is now underway. Reflections on this and other recommendations for JESSICA investments are included below.

## Recommendations

### Current Programme

#### Grant Funded Projects

7.63 Given the fact that a significant proportion of the resources for investment in Priority 3 are currently held within the London Green Fund (and has yet to be invested) partners need to proceed with care when considering how to deal with Priority 3 over the remainder of the current Programme period. The evolution of Priority 3 and potential of virement of funds from elsewhere does provide some opportunities to amend this aspect of the Programme, but a number of uncertainties remain. Based on the performance of the grant element of P3 possible areas of action for consideration by partners are:

- **Focus an additional funding on low carbon demonstrators**: Any proposed expansion of the grant element of P3 will need to be given careful consideration given the lack of projects within the pipeline. That said, additional funding could provide an opportunity to refocus the priority and support innovative/demonstrator projects which may have a long term value in London (the Ravensbourne Eco-Incubator is a good example of this). Indeed, more generally partners may wish to ***give some consideration to rewriting elements of P3 to provide more of a focus on support for low carbon activities.***

- **Rewrite elements of Priority 3 to reflect focus of delivery to date**: for a number of good reasons Priority 3 has refocused away from directly supporting businesses by the provision of more sustainable premises and locations. It should however, be acknowledged that Priority 3 has supported the improvement of locations and environments in the vicinity of some of London's larger industrial estates. Whilst the benefits of this investment may not be felt immediately, ***it may be worth reflecting the longer term strategic impact within the Operational Programme***.

#### Influence the future focus of the London Green Fund

7.64 The main area where there is still scope to influence the delivery of Priority 3 is by influencing future investments made by the London Green Fund. There are two key areas for intervention for consideration in the remainder of the Programme

- **Monitoring:** the lack of completed investments by the London Green Fund to date, is understandably a cause for concern amongst some stakeholders, this is particularly true in the case of the London Energy Efficiency Fund (LEEF). Given the vital role of the London Green Fund in Priority 3 and for the Programme overall, we share these concerns. Given the limitations within LEEF's pipeline, it may be necessary to consider opportunities to refocus objectives and, potentially reallocate resources elsewhere within the London Green Fund. As a result, one of the key recommendations for Priority 3 ***is for continued vigilant monitoring, particularly of the LEEF***. In addition to this, it may also be necessary to work more closely with the fund managers (Amber) to ***agree potential actions, should an alternative course need to be taken***.

- **Development of a new Urban Development Fund:** the allocation of the remaining £12m currently held within the London Green Fund is an opportunity to add some significant value to the Programme, through the development of an additional UDF. Partners have suggested a number of options for this, and a third UDF, which focuses upon low carbon energy solutions for social housing is now being procured. ***Partners must ensure that the pipeline of viable and fundable projects is carefully assessed***. It will also be important that co-investment from EIB, UKGI and other sources is sought to ensure that the fund is of a significant enough scale to deliver the 'step change' required of JESSICA projects.

### Revise the following targets for Priority 3 to reflect delivery to date and possible future projects

7.65 Again, the fact that much of the investment has yet to be defrayed, means it is difficult to make clear judgments upon where Priority 3 will and will not deliver against its designated targets. That said, based on performance to date, the project reviews and consultations with stakeholders, there are some indicators where targets could be reviewed:

**Table 7-1: Target Recommendations**

| Indicator | Target | Recommendation | Rationale |
|---|---|---|---|
| **Output Indicators** | | | |
| Brownfield land reclaimed and/or redeveloped (hectares) | 5 | Increase | Potential to monitor London Green Fund Pipeline and increase accordingly |
| Total new or upgraded floor space (metres squared) | 5,500 | Maintain (assuming no more workspace projects will be delivered in the remainder of the project) | Dependent upon the achievement of one project (and the assumption that this will be completed successfully |
| No. of demonstration projects show- casing latest co-generation or renewable energy technology systems | 5 | Maintain | Assumed that the London Green Fund will support the achievement of the target |
| No. of employment sites with environmental improvement Programmes to address identified deficiencies in accessible open space and/or access to nature in employment areas | 5 | Reduce | Limited scope for projects of this nature beyond the 3 projects already delivered |
| Area of workspace gaining | 2,250 | Maintain or Remove | Dependent upon the |

| | | | |
|---|---|---|---|
| BREEAM rating of 'Excellent' or equivalent (metre square) | | (assuming no more workspace projects will be delivered in the remainder of the project) | achievement of one project (and the assumption that this will be completed successfully |
| Proportion of projects incorporating sustainable drainage systems | 100% | Reduce or redefine measure | Not all project have been able to include SUDS |
| Proportion of projects installing de- centralised co-generation or renewable energy generation technology | 100% | Reduce or Remove | A number of projects have been unable to include decentralised or co-generation due to external issues |
| Area of Green and Brown roofs created (metres squared) | 200 | Increase | 750%. Relates to only one project which is now completed |
| Volume of additional flood storage capacity created (metres cubed) | 500 | Increase | 5050% achieved |
| Length of water course or restored or significantly enhanced (in metres) | 500 | Increase | 1025% achieved |
| **Result Indicators** | | | |
| No. of jobs created | 1,182 | Reduce | No job creation as yet. London Green Fund likely to hit target for job creation |
| No. of SME assisted | 4,286 | Reduce | Only 3% achieved with limited capacity for additional SME assistance |
| Additional capacity of renewable an co- generated energy production (MW) | 40 | Maintain but review | No achievement as yet, but could be built into the monitoring of a 3rd UDF |
| New or refurbished buildings with environmental specification in line with the London Plan (metres squared) | 5,500 | Maintain | Only 11% achieved, but 92% predicted within current projects |
| No. of new or existing businesses locating to eco-efficient, high quality work spaces | 55 | Reduce | Nothing achieved to date, only 40% predicted |
| No. of businesses supplied with low or zero carbon energy | 100 | Maintain | Dependent upon the successful delivery of London Green Fund projects which should be achieved. |
| **Impact Indicators** | | | |
| Increase in GVA | €164m | Remove | Lack of clarity on how this can be monitored in the lifespan of the current Programme |
| Increase in London's capacity to generate de-centralised co- | 20% | Maintain but review | Lack of clarity currently, but could be built into |

| | | | |
|---|---|---|---|
| generated and renewable energy | | | the monitoring of a 3rd UDF |

### London Green Fund Targets

7.66 In addition to the priority indicators outlined above, the London Green Fund has four indicators which it is being measure against:

- **CO2 reduction** (74,667 Tonnes abated)
- **Waste Diverted from Landfill** (245,000 Tonnes per annum)
- **Number of Gross Jobs Created**
- **Energy Savings** (MW).

7.67 Obviously, there has been no progress against these as yet, but fund managers are confident that these targets are achievable (notwithstanding issues with project pipeline). Again, it is important to emphasise the importance of monitoring the London Green Fund to ensure that these targets are achieved or are amended accordingly.

### General Observation on Priority 3 Indicators

7.68 Currently, there are 18 indicators for Priority 3, with an additional four indicators for the London Green Fund (in addition to other project level targets for JESSICA Funded projects). Many of these project indicators are highly project specific and as such, it is very difficult to gain a composite view of the success of Priority 3, particularly in terms of actually delivering a benefit for businesses. In the short term, partners should consider removing the targets which relate to a single project or duplicate other indicators. ***In the longer term, if a similar priority is included in the next Programme, partners should consider defining a smaller number of targets which better reflect the desired activities at a more global level.***

7.69 The presence of JESSICA in the overall monitoring framework for Priority 3 has also contributed to difficulties with monitoring of activity. Indeed, as a loan and equity fund, the LGF sits awkwardly within monitoring mechanisms and ***partners should consider establishing bespoke monitoring processes for JESSICA funds in future Programmes***.

## Other Recommendations for Consideration

7.70 There are a number of other recommendations related to Priority 3 which are worthy of consideration both in the context of the current Programme and the longer term future of ERDF in London; these are outlined below:

- **Extending Geography of Investment Outside of London**: There have been occasions where UDF Fund Managers have had the opportunity to invest in projects outside of the boundaries of Greater London (albeit where the benefit will be realised within the boundary of Greater London). It is apparent that there is a lack of clarity on this issue currently; with this in mind, ***liaison with the European Commission should be pursued to established clear parameters on investment geographies***. Ideally this should be undertaken within the current Programme, but should certainly be addressed before the 2014-2020 Operational Programme is drafted.

- **Project Level co-investment within the London Green Fund:** Another issue identified by fund managers is the requirement to seek co-investment at a fund level rather than on a project by project basis (something that was also identified by Deloitte in the original JESSICA feasibility study and evaluation). This again has proved particularly challenging for the FEF who have attracted co-investment from private funders. By investing at a fund level, investors have little influence over where their money is ultimately allocated, meaning that for them, the FEF becomes a 'blind' fund and less competitive and appealing than other financial products. Whilst 'project by project' co-investment creates less certainty in the Green Fund as a whole, ***it is recommended that the feasibility of creating new mechanisms to enable project level co-investment is given due consideration in setting up the 3rd UDF and in future operational Programmes.***

- **Clearer Relationship with UK GIB**: Since it was conceived and established, the market in which the London Green Fund operates has become increasingly competitive, not least with the establishment of the UK Green Investment Bank. Although stakeholder opinion is that this is complementary to the JESSICA investments, it is important that partners are clear on the relationship between the two funds and where any potential conflicts (and indeed opportunities) exist these are acknowledged. Further dialogue with Foresight (also fund manager for the UK GIB) is recommended to establish a clear position on this, with the current and future Programmes in mind.

## Incorporate best practice from the current Programme into future ERDF Programmes in London

7.71 Under Priority 3, the 2007-2013 Operational Programme in London has demonstrated some areas of good practice. These are detailed in the table below and should be incorporated into the 2014-2020 Programme, as well as other future Programmes, wherever possible.

- In some cases EPMU have been bold in their support of **innovative capital projects** which deliver outcomes and impacts beyond those which might be expected from a traditional business support project. The Ravenbourne Eco-Incubator is a good example of this and is a successful demonstrator project.
- Priority 3 has been successful in recognising the relationship between quality of environment and business investment. The **emphasis on 'quality'** in these projects has also driven health and participation benefits for local communities.
- Capital projects which **engage the business community** where they are delivered have been more successful than those which have not. The multi-agency, collaborative approach for the Belvedere Green Links project (LB Bexley, LDA and HCA) is a good example of this.
- The process for establishing the **London Green Fund has already been replicated nationally** and in other regions in the UK. As the 2014-2020 operational Programme evolves these structures and lessons learned should be considered in the establishing of new funds be they JESSICA or other loan funds (VCLF, ELENA etc).
- The **use of LDA owned land as match funding** for the London Green Fund has been acknowledged as best practice by stakeholders. Although this was a response to a specific set of issues at a certain moment in time, the experience and method for achieving this should be considered for funds included within the 2014-20 OP.

# 8. Review of Priority 4

## Strategy, Objectives and Targets

8.1 Priority 4 is the focus for Technical Assistance within the Operational Programme. The following are the key aims and objectives as set out in the strategy document:

- Facilitate and support the development, monitoring and implementation of the ERDF Programme in London
- Ensure compliancy with EC and UK regulations
- Ensure maximum benefit from European and UK funding for Londoners and help to sustain and strengthen the implementation of the ERDF Programme in London
- Help to ensure that interventions are evidence based and that the Programme is informed by lessons learnt from experience

8.2 The table below sets out the types of activities which it is envisaged that Technical Assistance could support. It also provides an indication of the degree of Programme focus and spend, with darker shading indicating that there has been greater emphasis.

**Table 8-1: Technical Assistance Activities**

| **Action** | **Indicative Activities** | **Programme Focus** |
|---|---|---|
| Programme Development | Activities that support the preparation, management, monitoring and implementation of the OP in London | |
| | Support for secondees in the ERDF administration authority or partner organisations | |
| | Support for audits and on-the spot checks | |
| | Funding for external expertise | |
| | Evaluations and feasibility studies, expert reports, statistics and studies. Research and collection of baseline and statistical information | |
| | Publicity, marketing and communications for the ERDF Programme | |
| | Support and development of the cross-cutting themes | |
| | Installation, operation and interconnection of computerised systems for management, monitoring, inspection and evaluation of the ERDF Programme | |
| | Measures to disseminate information, network, raise awareness, promote co-operation and exchange experiences between ERDF projects | |
| | Improvements in evaluation methods and the exchange of information | |

Source: Operational Programme document and Regeneris

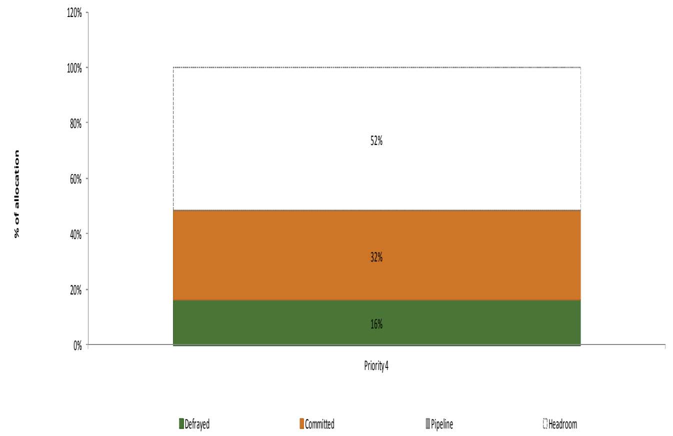
8.3 In line with EC Regulations, a maximum of four per cent of the total London ERDF budget is allocated to this priority. The Programme did not set any specific targets for Priority 4.

## Progress to Date

### Expenditure and Commitments

8.4 Expenditure data for Priority 4 suggests that significant headroom remains available, with around £3.2m or 52% still to be committed.

**Figure 8-1 Priority 4 Spend**




Source: London ERDF 2007-13 Programme Data, as of June 2012

8.5 It is not possible to provide a full breakdown of spend by type of activity, however the key observations are:

- The overwhelming majority of Technical Assistance (99%) spend has supported Programme administration. This includes Programme development, research, evaluation, monitoring, publicity and communications activity.

- Only one piece of research was supported through the Technical Assistance budget (accounting for 1% of spend). This was an 'Access to Finance' scoping study to establish the scale and type of provision required to assist SMEs having difficulties accessing finance.

8.6 Around half of match-funding was provided by the London Development Agency and when this closed the remaining amount has been match-funded by the Greater London Authority.

## Conclusions

8.7 Technical Assistance has provided valuable funds to support the management and administration of the Programme. There has been limited use of Technical Assistance to fund external capacity, particularly specialist advice to shape delivery / projects. A key issue for this may be match-funding. There are still opportunities for funding to be used to support the existing Programme and shape future delivery (i.e. 2014-20 Programme).

# Recommendations

## Current Programme

### Vire Funds into Priority 3

8.8 There is a small forecast shortfall of £1.8 million under Priority 3 in the light of pipeline projects which have been supported in the recent bidding round. It is recommended that the total amount is vired from Priority 4. There is currently £3.2 million available once defrayed and committed funding is taken into account. This would leave additional funding available under Priority 2 to support activities which can lead to job creation and support the growth of the economy as well as some remaining technical assistance funding.

### Consider the potential to use funds to inform the future Programme

8.9 If £1.8 million is vired into Priority 3, this would leave £1.4 million available under Priority 4. There is a strong case for this funding to be used to inform the 2014-20 Programme. This could include:

- Additional resources and support within EPMU to support projects to deal with monitoring and claims
- Research on key areas of interest (though it may be too early for this)
- Resource to consult with key businesses and partners on the future focus of the Programme and key projects which might be supported

8.10 In addition, as we note below, there is a case for additional funding to bolster the resources available to EPMU providing more hands on priority/project management to facilitate delivery of targets.

# 9. Review of Cross Cutting Themes

## Aims, Objectives and Rationale

9.1 The Operational Programme sets out the regions commitment to deliver two cross-cutting themes which is a formal requirement of ERDF. These are as follows:

- Environmental Sustainability
- Equalities

9.2 In addition, 'Sustainable Development' is an overarching objective for the Programme. This was defined as 'a process that seeks to ensure a better quality of life for everyone, now and for generations to come'. This is in line with the London Sustainable Development Framework published in 2005. The principles are taken into account within activity supported under Priority Axis 1 and 2 and were the central focus for activity supported under Priority Axis 3.

### Environmental Sustainability

9.3 Environmental Sustainability is defined in the Operational Programme document as:

"in the context of European Structural Funds environmental sustainability aims to maximise environmental impacts and realise the opportunities associated with economic development and in so doing ensure that the economy moves closer to the goal of operating within environmental limits."

9.4 Key environmental objectives which the Programme specifically seeks to address include the following:

**Table 9-1 Objectives for the Environmental Sustainability Cross Cutting Theme**

| Objective | Description | Example Activities |
|---|---|---|
| Climate change and energy | Mitigate the effects of climate change by reducing London's emissions of greenhouse gases and adapting to its impact. | Promoting energy efficiency, developing and deploying renewable and alternative energy technology. |
| Natural resources and waste management | Address the unsustainably high levels of natural resources used to drive economic development and manage the waste that is produced as a result. | Supporting resource efficiency, encouraging sustainable consumption and production. |
| Environmental quality including built and open spaces | To ensure physical support for sustainable and high quality business development, with a clear focus on areas of London that have the greatest opportunity and need for regeneration. | Principally addressed through Priority Axis 3 e.g. ensuring buildings have high environmental specifications. |
| Environmental awareness | Improve awareness and understanding of how good environmental management and performance can provide financial benefits and competitive advantage in all business sectors. | Principally addressed through Priority Axis 1 and 2. Priority Axis 3 will complement these by providing tangible support for businesses. |

| | | |
|---|---|---|
| Market development and support for environmental sector | Ensure that the full economic potential of the environmental sector is realised and that London establishes itself as a national, European and global leader in the high-value environmental technology and innovation sector. | Work with the environmental sector to make it more competitive and innovative in the national and global market will be supported. |
| Source: Operational Programme document | | |

### Equal opportunity

9.5 The focus is on promoting equality across the key dimensions of race, gender, disability, age, faith and sexual orientation.

9.6 The specific objectives are as follows:

- Take an integrated and strategic approach, with reference to European, national and regional policy, in promoting equality in all aspects of managing and delivering ERDF in London
- Ensure ERDF has a clear focus on supporting economic development for women, black, Asian and ethnic minority communities and disabled people
- Acknowledge and utilise existing good practice in equalities work in the management and delivery of ERDF
- Ensure review, challenge and continuous improvement in all equalities work undertaken in relation to ERDF in London

## Delivery Approach

9.7 The Environmental Sustainability CCT has been delivered mainly through the Priority Axis and particularly Priority 3.

9.8 Specific consideration was given to integration of the equal opportunities CCT into the delivery of the Programme and the Operational Programme document set out the key ways in which it would be delivered through the Programme:

- Programme delivery: integration into the prospectus and bidding guidance, monitoring against the targets which have been set, a capacity building Programme for staff to understand how they can be integrated into the Programme.
- Appraisal process: as a 'gateway criteria' in the appraisal process, each project will need to achieve a minimum score for each of the cross cutting themes before being able to progress to the next stage of the appraisal process

9.9 As the Programme progressed it was agreed by the LMC (July 2008) that the equal opportunities and environmental sustainability CCTs should not be given greater precedence above other appraisal criteria and it was removed as a 'gateway criteria'. It was anticipated that this would ensure that all good projects could be supported and that they would not be unsuccessful as a result of not meeting the gateway criteria.

## CCT Targets

9.10 All ERDF projects are required to embrace and embed environmental objectives. Under Priority 1 and 2, it is envisaged that a minimum 5% of businesses assisted will be in the environmental sector and a minimum of 5% of jobs created will be in the environment sector.

9.11 The headline equal opportunities targets for the Programme are as follows:

- Women: 34% across all indicators
- BAME: 35% across all indicators
- Disabled people: 5% across all indicators

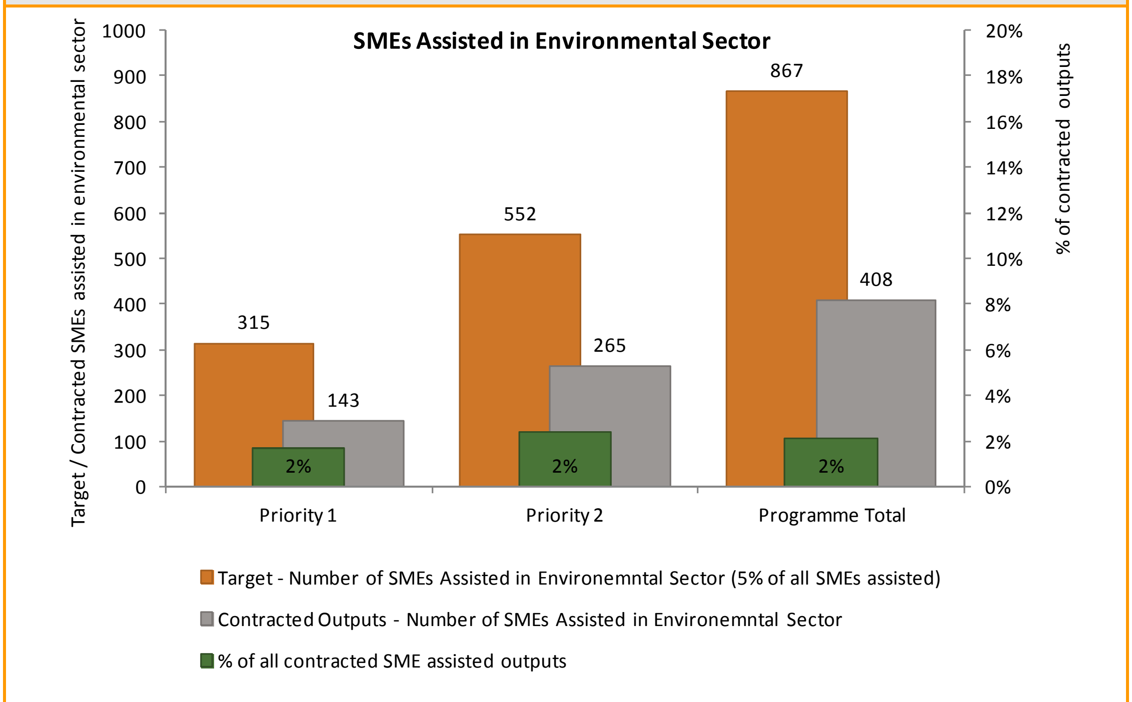
# Progress to Date

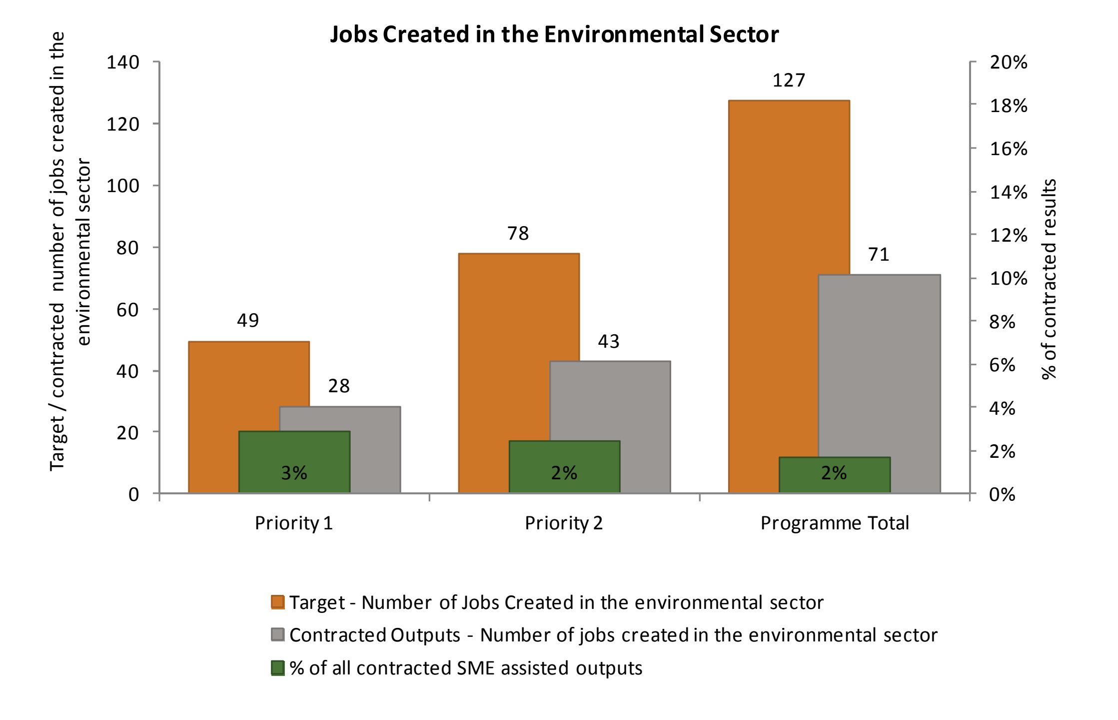
## Environmental Sustainability

### Core Targets for Environmental Sustainability CCT

9.12 The Programme data shows that the Programme is currently underperforming in terms of its core environmental targets. Only 2% of SMEs supported for Priority 1 and Priority 2 projects are from the environmental sector against a target of 5%. Similarly, only 2% of jobs created have been in the environmental sector for Priority 1 and Priority 2 projects against a target of 5%.

**Figure 9-1 Progress towards 5% targets for SMEs Assisted and Jobs Created in Environmental Sector**






Source: Monitoring Data, GLA (June 2012)

## Other Environmental Targets

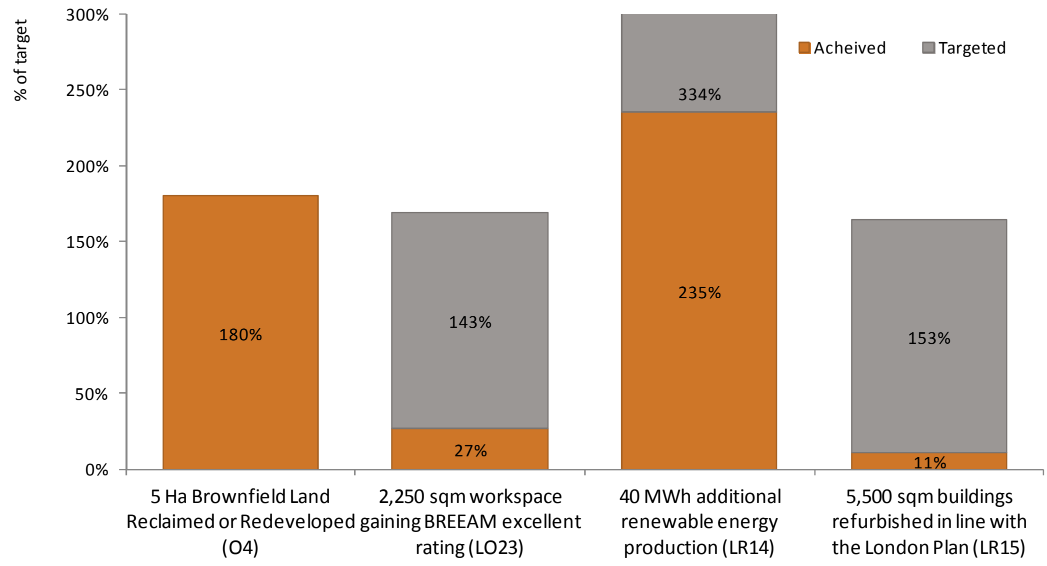
9.13 Environmental Sustainability targets are identified elsewhere in the Programme and the Programme is significantly over-achieving against some of these, including the following:

- 5ha of brownfield land reclaimed and/or redeveloped
- 40MW additional capacity of renewable and co-generated energy production

9.14 For some targets however, progress is much slower:

- 2,250 m2 workspace gaining BREEAM rating of 'Excellent' or equivalent
- 5,500m2 new or refurbished buildings with environmental specification in line with the London Plan

**Figure 9-2 Programme Level Environmental Targets**



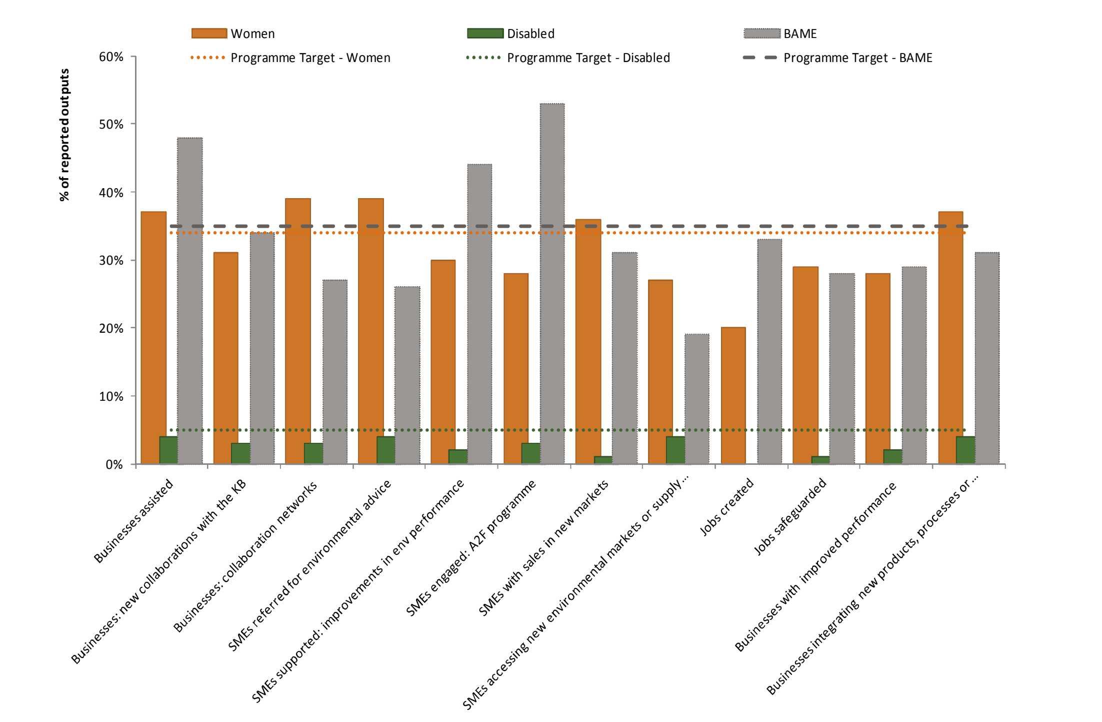

Source: Monitoring Data, GLA (June 2012)

## Equal Opportunities

9.15 On first glance, it appears that the Programme is underperforming against its equal opportunities targets. However, it is positive that the Programme is over-achieving against some targets:

- Women: the Programme is over-achieving against five out of twelve targets, including businesses assisted, businesses with improved performance, SMEs referred for environmental advice, collaboration networks and businesses integrating new products and processes.
- BAME: the Programme is over-achieving for three out of twelve indicators including businesses assisted, improvements in environmental performance and AMEs engaged in the access to finance Programme.
- Disabled: the Programme is under-performing against all indicators.

**Figure 9-3 Equal Opportunities**




Source: Monitoring Data, GLA (June 2012)

## Conclusions

9.16 There are several conclusions about the Programme's approach to the implementation of CCTs and future focus of its activities in this area:

- Whilst environmental sustainability is clearly a core part of the Programme, greater clarity could have been provided on how this would be delivered as a cross-cutting theme within the Programme. There could have been a stronger link with the OP document between this theme and the priority axis. For example, it would have been better if the OP document set out general principles and then showed how they will be addressed through Priority Axis rather than setting out additional activities.

- A target was set to monitor environmental sustainability but progress against this is quite weak and the majority of projects which we spoke to do not appear to be specifically recording progress against the target. Therefore, we do not have a clear picture of progress.

- The equal opportunities CCT was well integrated into the Programme at the start since it was a gateway criteria. This was later removed (together with the environmental sustainability CCT) and the reasons for this are understandable. It is clear however that as the Programme has progressed, less emphasis has been given to the equal opportunities CCT.

- Projects have reported that they have found it difficult to monitor progress against CCTs and that some of the requirements are a significant burden on time and resources. This is particularly the case for detailed monitoring of BAME groups for the equal opportunities CCT. It is likely that the Programme is over-performing in terms of its progress towards the CCTs but due to difficulties in collecting this information, this is not reflected in the project. The focus on collecting information on CCTs has also led to projects having to direct efforts on activities which are not a core part of their focus which has made the achievement of other targets more difficult.

- EPMU previously raised the issue of adapting MCIS software with DCLG Managing Authority to collect equal opportunities data, however this was not possible and spreadsheets have subsequently been used to collect data. It is likely that this has made monitoring more difficult for project delivery organisations.

- EPMU has gone beyond EU requirements in terms of collecting data for the Cross Cutting Themes (CCTs). The only requirement is to collect information on the proportion of beneficiaries which are female and EPMU has collected information on the proportion of beneficiaries which are disabled as well as collecting detailed equal opportunities monitoring data. This is positive if the information is used to inform future delivery but the burden on projects should also be a consideration for the future.

- Nevertheless, there has been some evidence of good progress against equal opportunities targets for some projects particularly those which are targeted specifically at BAME or female groups. Given the diversity of London we would expect it to be easier to meet these targets.

- There also appears to be a lack of clear ownership of CCTs and limited reporting at LMC meetings with some members having a limited understanding of the Programmes performance against CCTs. A key question for the London ERDF Programme will be the degree of resources and time which should be placed on this aspect of the Programme.

## Recommendations

### Current Programme

#### Reduce CCT Reporting burden on Projects

9.17 A number of projects indicated that reporting against CCT indicators was very time consuming (partly due to the fact that monitoring progress against the equal opportunities CCT was never integrated into MCIS) and EPMU should consider whether there is any opportunity to reduce the burden on projects. For example, it was originally intended that monitoring information on equalities targets would be collected for 16 BAME indicators, which are an extremely demanding requirement (and considerably more burdensome than other ERDF programmes we have evaluated). For both the current and future ERDF Programme, EPMU should consider whether this level of information is required and if it is felt that this level of reporting diverts attention away from other activities this should be avoided.

## Future Programme

### Consider whether reporting against CCTs is required

9.18 EPMU has gone beyond EU requirements in collecting monitoring data for the Cross Cutting Themes (particularly for the equal opportunities CCT). However, given that many of the indicators used to monitor CCTs are already mainstreamed in UK legislation and public sector policy (particularly with regards to equalities), EPMU may wish to consider whether going beyond any European Commission requirements in setting targets and collecting monitoring information and reporting globally in the future against cross cutting themes is required.

### Integrate CCTs into MCIS and potentially provide stronger reporting

9.19 The key recommendation for the future Programme is that any information collected on CCTs (relating to equalities or environmental targets) is integrated into MCIS for monitoring purposes. Currently, this information is collected separately (in an excel spreadsheet) and this provides a greater burden for projects and for EPMU. It also means that less weight is given to collecting this information. In addition, EPMU could consider more detailed reporting on progress at LMC meetings.

# 10. Review of Programme Implementation and Management

## Key Changes

10.1 During the period of delivery of the London 2007-2013 Programme, there have been a number of significant changes to arrangements for handling ERDF Programmes in England. The key changes are described below:

- On 1st July 2011, responsibility for the handling of ERDF Programmes in England switched from Regional Development Agencies (RDAs) to the Department for Communities and Local Government (DCLG).

- For London alone, DCLG has delegated certain functions to the GLA to act as an '**intermediate body**'. These functions include project appraisal, payment and monitoring roles. For all other regions, these functions are now carried out by DCLG. Nevertheless, DCLG still retains the managing, auditing and certifying authority for the London Programme.

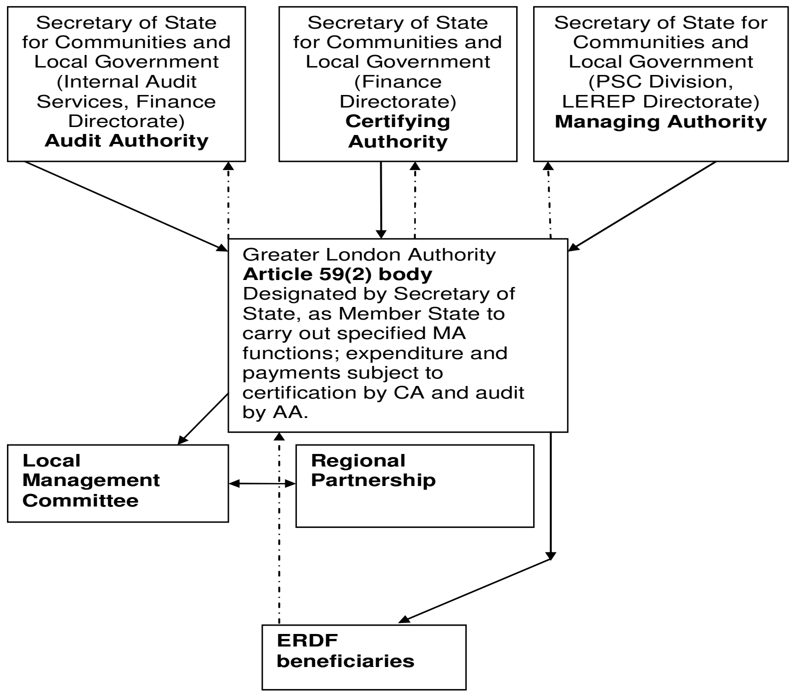
- Following the abolition of Regional Development Agencies, the European Programmes Management Unit (EPMU) has moved from the London Development Agency (LDA) to the **Greater London Authority** (GLA).

- There has been a shift from the Programme Monitoring Committee (PMC) as the key strategic body to a **Local Management Committee** (LMC). Elsewhere this is chaired by DCLG, however in London the LMC is chaired by the Mayor reflecting the GLAs unique status as an intermediate body.

- There have been significant changes to the systems and processes in place for handling ERDF investment. With DCLG taking over national responsibility for ERDF Programmes, there has been a push towards greater levels of **standardisation** of **systems and processes**. Despite the GLAs Intermediate body status significant efforts have been made to ensure that their systems and processes are in line with other Programmes.

10.2 The diagram below highlights the specific arrangements which are now in place and provides an overview of the roles and responsibilities of the GLA and DCLG.

**Figure 10-1 Management Arrangements for the London ERDF 2007-2013 Programme**




Source: Operational Programme document

## Governance Arrangements

### Role and Function of the LMC

10.3 The London ERDF Programme is overseen by the Local Management Committee (LMC). It is comprised of representatives from:

- UK Government departments, including DCLG and BIS
- European Commission
- Greater London Authority (GLA)
- Local Authorities through London Councils
- Sub-Regional Partnerships, including West London Alliance and the South London Partnership
- Other partner organisations, including the Environment Agency, the London Voluntary Services Council, the London Higher Europe Group and the Southern and Eastern Regional Trade Union Congress.

10.4 Currently, there are 17 organisations represented on the LMC and membership has been widened as the Programme has progressed to include sub-regional partnerships.

10.5 Under the previous ERDF Programme, there were a number of sub-groups below the LMC and it was felt that this was a little unwieldy. Given the size of the current Programme and learning from previous Programmes, a decision was taken to create a more streamlined structure and therefore there are no priority working groups or investment decision groups.

10.6 The LMC is responsible for considering and approving the criteria for selecting the projects financed under the Programme amongst other responsibilities which are summarised below.

- Involvement in the appraisal and moderation process to select projects and make recommendations to the Mayor (individuals are asked to volunteer and there are 2 representatives from the LMC on the appraisal and moderation panel)
- Oversight of Programme performance particularly Programme expenditure and performance indicator targets as well as delivery of cross-cutting themes.
- Considering and approving proposals for amending the ERDF London 2007-13 Operational Programme (OP), including financial changes between Priority Axis;
- Considering and approving the following: Annual and final implementation reports; Technical Assistance Strategy; ERDF complaints procedure; London ERDF 2007-13 communication plan; Programme evaluations.
- Informing and approving Terms of reference and set up of any sub-committees;
- Initiatives to improve the management of the Programme, including financial management;
- Synergy between the ERDF and ESF Programmes in London, domestic regeneration Programmes, and regional strategies;

10.7 The key points which have arisen during this evaluation are as follows:

- The London LMC appears to be a good example of a strong and committed partnership with very few (or no) tensions between partners. In this respect, there is a perception that the group functions effectively when compared to other similar partnerships for other regions. There is however, a perception from some in the group that the LMC could be more influential and challenging at times.

- The role of the LMC has evolved throughout the Programme and it appears that the group has been given more opportunities to influence the Programme in more recent years. For example, an LMC sub-group plays a more formal role in the appraisal process.

- Membership of the LMC is inclusive, including a broad range of partners. Some members have indicated however that the group is too large and that this impacts on the ability of partners to make a meaningful contribution to the group and to influence the Programme in any way.

- To date, the London LEP has not been involved in the London ERDF Programme. This is largely because the LEP is a new partnership and it is still to be seen how it will operate in London. EPMU should monitor the situation in the future and consider their future role in the Programme.

- There is a clear sense of buy in to the Programme, however the LMCs understanding of the strategy and objectives varies amongst partners (reflecting the fact that there have been a number of new partners). The same could also be said for the groups understanding of the performance of the Programme, whilst some are familiar with the statistics many are insufficiently well informed about the detail of the Programme and the issues and challenges it faces.

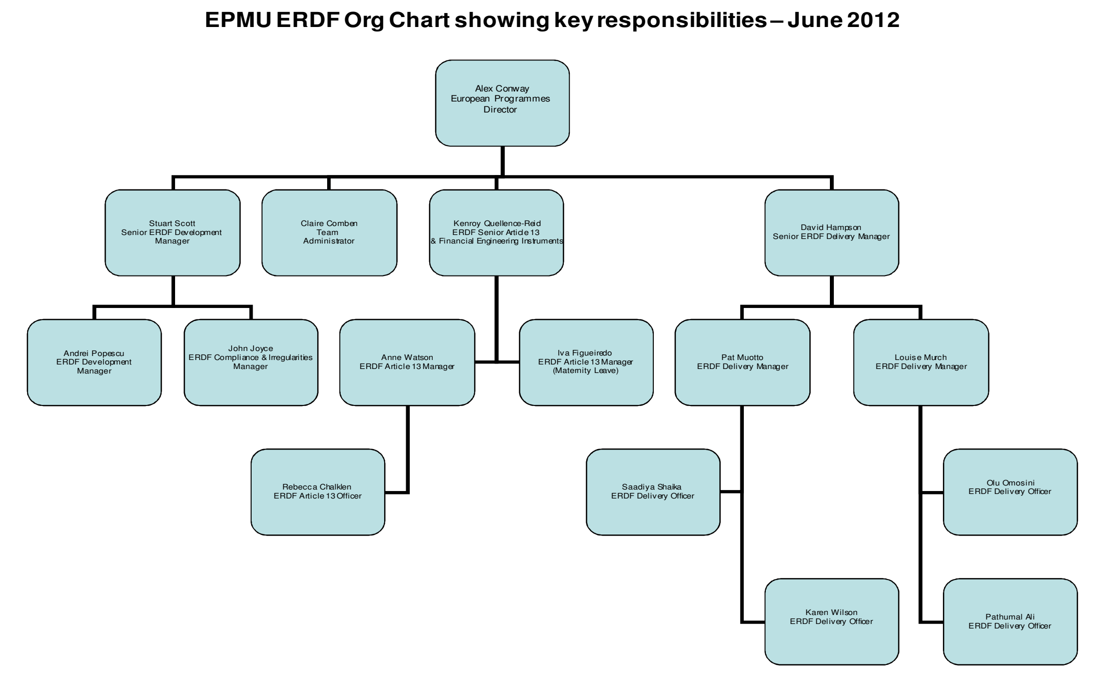
- The flow and quality of information from the Programme to the LMC is seen as having been timely and generally good. At times, there is some concern that this has been perhaps too detailed and some have felt overwhelmed with the information made available (for example in 2011, 11 LMC papers were made available as required by written procedures). The frequency of LMC meetings is seen by some members as having been insufficient. The LMC now meets twice yearly (in the past and during busier periods, they have met four times a year) and some feel that this should be increased to four times a year, particularly when there are significant changes underway or during the busier times when bidding rounds have taken place. It is felt that the group could be more influential if they were able to meet more frequently. Papers are issued under written procedure outside of the meeting cycle, which is one way of maintaining contact with the LMC but nevertheless there is a preference from some that meetings instead/alongside this would be more effective in keeping people updated.

## Managing the Programme

10.8 Based within the structures of the GLA, the **European Programmes Management Unit** (EPMU) undertakes the overall Programme management, project appraisal, payment and monitoring rules and acts as secretariat for the LMC. A staff structure is shown below.

10.9 The **Mayor of London** is responsible for the Programme strategy for the London ERDF Programme as well as the approval of recommendations for awarding funding based on recommendations from the LMC. The Mayor also chairs the LMC or another delegated individual which is currently the GLAs Assistant Director of Economic and Business Policy. The Mayor has been given these powers through a Statutory Instrument enshrined by Parliament.

**Figure 10-2 EPMU Staff Structure**




Source: EPMU, GLA

10.10 EPMU is functionally separate from those parts of the GLA responsible for the development and delivery of projects and reports to the GLA Executive Director for Resources. The key points which have arisen out of this evaluation are explained below:

- The management of the London Operational Programme appears to have been effective and is generally well regarded by partners. EPMU is considered to be a 'safe pair of hands' with strong Programme management capabilities. In particular, they have made good progress in terms of their spend targets and have progressed well with major difficult projects such as JESSICA.

- The team has been incredibly proactive at ensuring that its processes and systems are consistent with those of other regions. This was the case at the start of the Programme when EPMU signed up to using MCIS (whilst others decided to use their own systems) and is extremely evident following the implementation of DCLG's standardisation process.

- There appears to be significant levels of knowledge and expertise within the team itself with a number of the team involved in the previous Programme at the Government Office for London (there has been relatively low levels of staff turnover).

- On the whole, projects have been positive about the team and when significant issues have been raised they have felt that the team has been incredibly supportive. This has been particularly the case where there has been a need to challenge DCLG audit decisions or with other issues such as dealing with project delivery partners. Some however did feel that the split of responsibilities or structure isn't clear and potentially there could be a staff structure on the website.

- One of the greatest challenges for EPMU has been to provide (what projects consider) sufficient support and the time taken to contract projects and process claims in particular appears to have been too long. This is largely due to the fact that it is a relatively small team which is required to manage a large number of projects. It does not appear to be a weakness in the skills and capabilities of the team itself. A number of issues have contributed to the administrative burden for EPMU and these are outlined in more detail below.

- EPMU appear to be responsive, for example they are currently organising monthly meetings to monitor the progress of projects which should have closed or which are due to close in the near future. This enables them to identify priorities for action to ensure that any delays are minimised.

- A small number of individuals have questioned the Mayors involvement in approving projects and Programme and there is a small amount of concern over the transparency of the Programme in the light of this. However, it is important to note that Mayoral decisions are published on the GLA website in order to ensure that processes are transparent and there is no equivalent for this outside of London. It should also be recognised that to date, the Mayor has not sought to change a recommendation made by the LMC. Both of which suggests that there is transparency.

- It is sometimes felt that EPMU could have been more strategic in its approach and drawn on the skills of specialists and experts. This is addressed later in this section. There has not been strong alignment between the GLA and EPMU and this is potentially a weakness of the Programme. The ERDF Programme has not really harnessed resources from the GLA (or the LDA) to support the Programme.

## Systems and Processes

10.11 Overall, EPMU has **developed effective systems and processes** to support the ERDF Programme. Where issues have arisen, this is generally as result of issues over resources and to some extent audit issues (discussed later in this section).

10.12 Some examples of best practice include the following:

- The Programme has ensured that its systems and processes are in line with others (for example the Programme adopted MCIS at an early stage despite this not being requirement). Furthermore, EPMU has ensured that London has been closely involved in the standardisation process being led by DCLG (despite this not being a requirement) to ensure that there is consistency of systems and processes and to ensure that thorough systems are in place.

- DCLG has indicated that some elements of best practice from the London Programme is being incorporated into the standardisation process. For example, the London Programme's detailed claims transaction list and supporting documents required as part of a claim.

- A gap analysis has been carried out following every bidding round and this has ensured that there has been good coverage of projects supported across a broad range of priorities and actions.

10.13 An 'unqualified' systems audit was carried out by DCLG in September 2011[7] and this highlighted a number of areas of good practice in the London Programme. This included, development of the claims checklists which recognise the different risks associated with claims during the project lifecycle and transparent appraisal processes which are fully documented within the bidding prospectus. However, a number of relatively minor issues were raised, including incomplete appraisal forms, issues around Article 13 visits (imprecise evidence and a high number of unconcluded Article 13 checks). The number of unconcluded Article 13 checks has since fallen considerably (that is 52 of the 74 Article 13 reports are now closed).

10.14 Another key point is that there have been a number of changes to the systems and process as a result of the **standardisation process**. Led by DCLG, the new standardised process has been in place since April 2012. Nationally, this means that there are:

- Single national rules aimed at avoiding different interpretations in different Programmes, supported by a standard set of documentation,

- Uniform processes, documentation and language. This covers project inception (or

[7] ERDF London End to End Systems Audit, Internal Audit Services at DCLG (September 2011)

bidding prospectus, guidance) and appraisal, Funding Agreements, project monitoring including Article 13, eligibility and other guidance.

10.15 A national approach has been taken so that practitioners can take responsibility at a national level and advise on national rules and documentation. However, the GLA, as Intermediate Body, can vary from processes as appropriate.

## Project Development and Application Process

10.16 The project development and application process appears to be strong and no major issues have been identified during our consultations. Key points are identified below:

- The decision was made to disperse Programme funding through open bidding rounds. This appears to have encouraged a large number of bids to be supported. There is some sense that particularly in the earlier bidding rounds the processes in place could have been much tighter and a significant number of projects were supported in those early rounds. This is largely in response to a greater emphasis being given to achieving spend targets (as opposed to outputs and results).

- Perceptions of the bidding process by partners are generally very positive. The prospectus appears to be clear, well written and prescriptive about the types of activities which will be supported. It is felt that the later bidding rounds have been more effective since greater levels of support have been available to applicants. This has largely been possible because EPMU have been able to deal with fewer applicants.

- Greater support with the application process has been provided in the later stages, which is positive. For example, in round 5 a seminar was held for potential applicants and then applicants were asked to complete an outline application in draft and then send this to EPMU for feedback. It is felt that this has resulted in higher quality projects being supported.

- Changes have been made to the bidding process as the Programme has progressed which is positive. For example, at the start of the Programme, an Expression of Interest (EOI) was required and this was then dropped for the second bidding round. This was subsequently reinstated when it was felt that this would help to sift out unsuccessful projects at an early stage.

- EPMU have carried out a gap analysis at the end of each bidding round and this has informed the focus of future rounds. This is evident in the Programme prospectus which specifies key activities which are of greater interest. This is positive and is an example of how EPMU has shaped the Programme. Nevertheless, it is felt that EPMU could be more strategic in its approach to supporting projects as identified in Section 3 of this report.

- In the earlier stages of the Programme, there was less formalised involvement from external partners in the appraisal process. This has changed during the latter stages of the Programme and members of the LMC are involved in the appraisal process through appraisal sub-groups.

- The majority of individuals we spoke to appear to be involved at the post-contract stage (due to the fact that individuals involved in the application process have now left), however it appears that the time taken to approve projects has been reasonable and no issues have been raised. The processes in place appear to be transparent. Over the course of the Programme there have been some appeals but following on from this the Programme has not been challenged. On two occasions, EPMU accepted an appeal and the project was supported.

- There have been significant issues arising as a result of the large number of partners on board within projects. Many lead partners are managing around 4 or 5 partners per project or more. This has placed a significant burden on the lead partner in terms of overseeing their delivery and collecting their evidence. Issues have arisen as a result of some partners providing poor quality support either due to a lack of experience or other reasons. Projects would have liked more advice on delivery partners they should select at the application stage. Ideally, the number of delivery partners should have been reduced, though the key issue is the need for match funding. It should be recognised that in the later bidding rounds (3,4 and 5), EPMU has sought to discourage large delivery partnerships. In Round 5 for example, this was expressed at workshops held for applications with the focus being on asking applicants to avoid untried and untested partnerships.

- EPMU has introduced minimum thresholds for projects supported to encourage larger projects to be supported. In round three the threshold was £300,000 and this was increased to £750,000 for round four and £500,000 in round five. One of the key issues is that projects find it difficult to source the match funding to achieve these thresholds.

## Contracting and Post Contract Support

10.17 There appears to be areas for improvement at this stage of the process, particularly around decreasing the timescales for these stages and providing greater levels of post-contract support.

- It is felt that the time taken to issue contracts to projects is too long. For some projects, this appeared to take around six to nine months and in some instances a funding agreement has not been received until after projects are underway. Lengthy discussions have been had about a number of issues including overhead costs. In part, this is likely to be due to resources at EPMU and the number of projects supported. Furthermore, it does appear that the time taken to issue a contract does appear to be on a par with other Programmes. Nevertheless, it is felt that some processes could be put in place to speed up the process. In the latest bidding round, financial due diligence was carried out at the application stage which helped to speed up the process.

- Project engagement visits have been carried out and there is little evidence of delays in carrying these out. The key issue appears to be around the extent of the support available and it is felt by some that more hand holding would be beneficial at this early stage. In particular, there appears to be demand for more support for projects with putting in place the systems and processes to monitor their project, particularly with regards to collecting evidence. The issue of additional support from EPMU appears to be a theme throughout this evaluation.

## Claims, Monitoring and Project Evaluation

10.18 There are greater opportunities to improve this stage of the process above all others, particularly Article 13 and Article 16 audits. The key points are set out below:

- A significant issue for some projects has been collecting evidence to demonstrate their progress towards targets. Some projects have indicated that they have issued forms to beneficiaries only to realise further down the line that they are not fit for purpose and need to be revised. There are also issues around the consistency of forms to collect evidence with some disparities compared to other regions. It is often felt that London is stricter in terms of its requirements for collecting evidence (and some would argue that this would be a good thing). Spreadsheet templates with formulas would also be helpful since lots of time is spent manually updating spreadsheets.

- Many projects reported that it can take up to nine months to process claims. In part this is likely to be due to the number of projects (in particular revenue projects) supported and a lack of resources. It is also likely to be due to incomplete or incorrect information being submitted as part of the claim or multiple claims being submitted at the same time, which is often down to the projects themselves. However, there is a sense that this may have been minimised through the provision of clear guidance or hands on engagement with projects to minimise errors. A flat rate on overheads could potentially help to speed up the process.

- It is now recognised that Article 13 project visits (which focuses on compliance) could have been held sooner. Instead, the Programme has relied on Programme Engagement Visits (PEV) to identify issues during the first claim. The Article 13 team wasn't set up until October 2010, which was later than ideal.

- Several English ERDF Programmes (including the London Programme) were suspended in 2009/10 because of high error rates. These were identified through a small annual random sample of projects checked by DCLG's Audit Authority as part of their Article 16 checks. By way of response, DCLG commissioned Moore Stephens, an accountancy firm, to carry out nationwide 'enhanced' Article 13 visits to examine a wider range of projects and expenditure than the original Article 16 checks. These checks included a relatively large number of London projects, which compensated for the relatively late set-up of a separate Article 13 team. The error rates resulting from the Moore Stephens checks were low.

- A major issue which has arisen during the current Programme is as a result of Article 16 audits (which focuses on financial audits) carried out by DCLG. The audits have identified a number of significant issues in terms of project delivery including the apportionment method for overheads as well as information recorded in timesheets. Some of the issues have revealed inconsistencies between advice and guidance provided by EPMU and by DCLG. This has led to significant dissatisfaction amongst projects as a result of changes which have been necessary and quite often a perception that advice from EPMU is inconsistent or incorrect. It is felt by EPMU that the Audit Authority at DCLG can be over-severe in interpreting national and European rules to the disadvantage of projects that are then required to return funds for perceived infractions. The ability to devise audit arrangements independently would be a key advantage of the GLA becoming a managing authority for the next Programme.

- The time taken to address issues arising from project audits and project monitoring appears to be too long. This has resulted in significant delays to project closures and makes it difficult for the Programme to have a good handle on project performance. Project closures have also been held up by delays in processing claims and because of the legacy of requiring external audit certificates from projects.

- There is some concern over proposals that some high risk projects will require a second Article 13 visit. This will make it even more difficult for projects to close.

- Due to issues which have been identified during Article 16 audits, EPMU has issued guidance on claiming funding towards overheads and also on procurement. Despite this, some projects have interpreted this guidance in different ways, which has resulted in difficulties.

- Due to the complex nature of the projects which have been supported with a number of delivery partners and staff time used as match funding, this has created an additional administrative burden for EPMU which has required more time and resources than originally anticipated.

- The Programme has set clear guidance on project evaluations. Projects which are above £750,000 in value need to commission an external evaluation and any projects below this evaluation need to submit a self-evaluation. The projects themselves have on the whole reported that they have found external evaluations beneficial. However, it does not appear that EPMU has used this evaluations effectively, for example using the information to inform future delivery or disseminating interesting findings to other similar projects. Instead it was always envisaged that the findings would be incorporated into midterm and final Programme evaluations.

## Marketing and Publicity

10.19 The Programme's approach to marketing and publicity has been very strong and some have commented that London carries out more activities than other regions. It has benefitted from resources provided by the London Development Agency and now the GLA. The key points are as follows:

- A detailed communications plan sets out clear objectives around for example maximising visibility and ensuring transparency. An evaluation of the plan was carried out internally in 2010 and this demonstrated that the team was successful in meeting the objectives of the plan.

- It appears that there is strong awareness of the London ERDF Programme and no issues have been raised to suggest that certain groups or partners are unaware of this. EPMU prepares regular newsletters which are shared with partners and projects in delivery. This does appear to be focused on promoting the Programme (e.g. highlighting projects supported) and at times it is felt that these newsletters could be more informative for example providing information about changes to the Programme.

- EPMU has taken a positive approach to awards ceremonies. For example, they regularly put forward London projects for European awards ceremonies such as RegioStars, which identifies good practice in regional development (and London projects are often runners up). The team also organises awards ceremonies for London based projects, including ERDF Project of the year.

- There is a dedicated website which provides information about the Programme. Some of the information could be more up to date (for example LMC meeting minutes) but the information provided about projects supported is good. The London Programme is also considered to be advanced in its use of social media, for example linking the Programme to Facebook and Twitter.

### Communications

10.20 Whilst the Programme's approach to marketing and communications appears to have been strong, the approach to communicating with individual projects could be improved. In particular, it is felt that there has been poor communication of changes to the Programme. Whilst EPMU have indicated that it is their practice to email all Lead Partner contacts highlighting any changes to the Programme, some projects have indicated that Programme guidance has been updated on the website (e.g. on timesheets and overheads) but this has not always been relayed. This has created significant tensions when projects are not aware of changes and have to retrospectively make amendments to systems, processes or the collection of evidence. It may be the case that information is not always communicated between staff for ERDF projects or to delivery partners.

10.21 There is also an issue around the consistency of information and advice provided by project managers, for example on claims and overhead costs. This has resulted in dissatisfaction from projects when their delivery partners are given different advice.

10.22 EPMU does hold workshops for projects for example before a bidding round or seminars to promote the Programme, however it is felt that workshops could be held more regularly. It is felt that this would enable project managers to network and learn from each other as well as receive information from EPMU which may be valuable (e.g. changes to guidance).

## Recommendations on Governance

### Future Programme

Governance Recommendation 1: Explore opportunities for the GLA to become a Managing Authority for the 2014-20 Programme

10.23 The GLA has proposed to DCLG and EC that it becomes an ERDF Managing Authority. The GLA would thus report directly to and be financially responsible to the European

Commission instead of DCLG (as is the case of the Devolved Administrations). This would have a number of advantages which include:

- Greater flexibility and control over the Programme
- Avoiding issues which have resulted from DCLG auditors auditing London projects resulting in inconsistent project advice (explained in more detail below)
- Greater consistency in terms of advice to projects (project managers delivering ERDF funded projects have indicated that they would be supportive of this new approach to management of the Programme)

10.24 There are however a number of risks or potential concerns which include:

- Financial risk to the GLA if anything goes wrong, especially clawback of ERDF should there be issues with Programme or project performance (e.g. central costs could be higher) and associated reputational risk
- The administrative costs relative to levels of funding in London overall in England to support ERDF. The overall costs to support management and delivery of Programmes in England may be higher if the number of bodies managing ERDF Programmes increases. Or put another way, if the resources available to London are more modest than the current Programme, the case for being a separate managing Authority with associated overhead costs is reduced.

10.25 This proposed change would help to address a number of issues which have been identified within this evaluation relating to project delivery and it could provide greater synergy with the GLA and potentially a stronger strategic focus. However, we would point out that this strategic alignment does not require the GLA to act as Managing Authority, indeed being the Managing Authority does not in any sense guarantee this strategic alignment (see recommendation below).

10.26 The GLA would also need to give consideration to how it would ensure that the London Programme management aligns with the national systems and its relationship with DCLG. It would be favourable for guidance and key systems and approaches to be aligned in order that the process can be as streamlined as possible.

10.27 Overall, we consider that in principle there is a case for the proposed change, but only if the future London ERDF Programme is of sufficient scale to warrant the extra administrative costs. It is also the case that those making the decision need to be fully aware of the long term financial implications and risks associated with becoming Managing Authority.

### Governance Recommendation 2: Review the LMC Structure

10.28 The evaluation has provided generally positive feedback on the role of LMC, for example the good range of partners involved and the positive relationship between partners. The London LMC works well compared to other similar groupings for other regions. However, there are a number of areas which could be improved:

- In the evaluators view the group could meet more frequently (they currently only meet twice yearly) to provide effective oversight. This makes it difficult for partners to make a meaningful contribution and to develop a good understanding of how the Programme is performing.

- The role of individual LMC members is not always clear and the role of individuals/organisations could be more influential. This is in part down to the fact that individuals themselves do not always challenge or question decisions during LMC meetings.

- There are times when the LMC chair at the GLA is unable to attend which risks affecting the continuity of the meetings.

10.29 A two tier structure for the LMC, used in many other regions, would have benefits. This could include:

- A smaller sub-group which meets more regularly and which includes representatives from the GLA, London Councils and potentially other sectors (Higher Education, environmental bodies or sub-regional partnerships). This group could provide more input into decision making and oversee progress on the delivery of the Programme (in some regions this body is known as a Performance Management Committee).

- A larger group which includes individuals which are currently represented on the LMC. This group would meet less regularly and would help to oversee the Programme, providing strategic input and ensuring that key partners have a say in Programme delivery.

10.30 For the next Programme, EPMU should consider whether an alternative structure may be beneficial.

### Governance Recommendation 3: Identify opportunities for the LMC to become more influential

10.31 There may also be potential to consider additional measures which can ensure that the LMC is more influential in terms of the London ERDF Programme. These could include:

- Revisiting the Terms of Reference, which sets out the role of the LMC and individual members. This should consider whether there is sufficient potential for the LMC to influence decision-making.

- Members could also 'sponsor' ERDF funded projects. They would not necessarily need to provide financial support but they could provide advice and support to inform delivery.

### Governance Recommendation 4: Ensure that there are stronger links between EPMU and the GLA whilst maintaining levels of transparency

10.32 There is strong involvement in the London ERDF Programme from the GLA in some respects, for example the Assistant Director of Economic and Business Policy at the GLA chairs the LMC, officers of the GLA (outside the EPMU) are involved in appraising applications and all applications require Mayoral approval.

10.33 However, at a strategic level we consider the linkages are not as strong as they could be. In part, this is likely to be due to the fact that EPMU was previously located at the LDA. Furthermore, traditionally there has been a deliberate separation between EPMU and the GLA to ensure that there are high levels of transparency. There could be stronger involvement at a strategic level, for example:

- at the start of the Programme influencing the focus and ensuring that there are strong synergies with the Mayors Economic Development Strategy.
- during delivery identifying potential synergies with the Mayor's Programmes, particularly where there are opportunities for match funding (e.g. Outer London Fund).

10.34 This may be easier to achieve if the GLA is Managing Authority (but this is far from guaranteed). Care does however need to be taken to ensure that transparency remains.

## Systems and Processes

### Current and Future Programme

10.35 The majority of the recommendations below relate to the future Programme but EPMU should consider whether some issues can be resolved sooner.

#### Management Recommendation 1: ensure that contracts for approved projects are completed more swiftly (whilst maintaining levels of rigour)

10.36 The majority of projects reported that it took around six to nine months between the project approval and the contracting stage. We consider that this length of time is unduly lengthy. We understand that the delays are largely to ensure that the appropriate checks are in place (particularly financial due diligence). This was a greater issue during the early stages of the Programme when there were far more projects being contracted. The situation appears to have improved somewhat for the current round (round 5) where there are fewer projects and where there have been some changes to processes such as financial due diligence being undertaken at the application stage. One of the key issues is resources to manage this process particularly in the light of a large number of projects being supported. It is **important that this issue is addressed for any future Programme** since it can impact on the achievement of project targets. Carrying out checks on for example due diligence at an early stage (as per Round 5) will help to address this issue.

#### Management Recommendation 2: Where possible, provide more post-contract support to projects during the delivery phase

10.37 During the project reviews, some project managers have indicated that they would like more support during delivery. This could include a more visible presence at regular intervals. One of the key issues is that too many projects have been supported. Ideally, each project manager should be responsible for around 10 projects and instead this is usually between 11 and 16 per project manager.

10.38 In order to address this, the following are the key recommendations:

- Supporting fewer larger projects. This does have some risks, for example the fact that the Programme would be reliant on fewer projects to meet targets and reliance on fewer sources of match funding. Nevertheless, it would mean that project managers could provide more hands on support.

- Alternatively, EPMU could consider whether they are able to commit more resources to project management (or shift the balance of time spent by the wider team). This may not be possible since it may be more desirable to commit greater levels of funding to project delivery but could be a consideration.

- Consider ways in which projects can receive more support from their peers including LMC and other ERDF projects. We previously mentioned the fact that the LMC could act as a project sponsors and another suggestion is that ERDF projects could be matched with project managers for other similar projects to share their knowledge, experience and expertise. Alternatively, EPMU could facilitate more networking events to allow projects to share expertise and learn from others.

### Management Recommendation 3: Ensure that there is greater consistency in advice across project managers

10.39 A key issue which has arisen during the project reviews is the level of consistency across project managers at EPMU with regards to advice to project delivery staff. This has been particularly the case where there are a large number of delivery partners for single projects. In these instances, it is often the case that one delivery partner is given certain advice from a project manager at EPMU (for example where they are managing a project) and this may contradict advice given to the lead partner by their project manager at EPMU. This makes it very difficult for lead partners to be able to influence their delivery partners and can lead to information being collected in a different way or different approaches to delivery. Resolving these issues results in significant amounts of time and resources directed at addressing these which often hinders delivery.

10.40 This issue is difficult to overcome, however this can be addressed through ensuring that systems and processes are clearly set out in guidance documents. There is also a need to ensure that project managers have a good understanding of how this should be implemented in practice. Changes to guidance and templates are discussed at EPMU monthly meetings to ensure there is consistency of understanding before changes are finalised. Nevertheless, it may be that further discussions are required (e.g. a dedicated internal workshop) or a regular review of progress in terms of how effectively the changes are being implemented.

### Management Recommendation 4: Review requirements for the collection of evidence and provide stronger levels of support to projects

10.41 The collection of project evidence to demonstrate that targets have been met has been a significant issue for some projects. Projects reported to us that the actual progress is a lot higher at times than the progress which could be reported and this is particularly the case for (i) job creation targets (ii) jobs safeguarded targets.

10.42 This is a particular issue for organisations or individuals which are new to ERDF Programmes but it has also been an issue for those with significant ERDF expertise who have not adapted to changes in reporting. Some projects have found that the forms they are using to collect information are not sufficient and they have had to go back retrospectively and collect additional information which has been time consuming.

10.43 There is also an issue around the level of information which projects need to collect and consistency with other regions. This has been a particular issue for evidence on job creation. There are a number of possible recommendations:

- Standardised forms: potentially EPMU could develop standardised forms at a priority level which can be easily adapted to reflect the different types of projects being supported.
- Greater levels of advice on forms used: EPMU could look more closely at the forms before sign-off and advise on changes which may be necessary to ensure that information is collected.
- Review information required and ensure consistency: to some extent this will be addressed as part of the standardisation process. However, EPMU should ensure that requirements are fit for purpose and not overly onerous and that there is consistency with other regions.

Management Recommendation 5: reduce the time taken to process claims

10.44 Projects reported that it can take EPMU as long as 9 months to process claims in many instances. This can result in cash flow issues for some project delivery organisations. In addition, this can have a negative impact on Programme management for EPMU since it is difficult for them to have an up to date and accurate picture of how the Programme is performing overall. This is in part due to the large number of projects relative to the number of project managers. In part this will be addressed through tackling other issues (e.g. ensuring that projects are collecting the correct evidence, are completing their timesheets correctly using the right guidance).

10.45 One additional recommendation which could be considered is the flat rate on overheads. It is clear from the project reviews that a number of issues have arisen with regards to difficulties calculating project overheads. EPMU could consider introducing a flat rate on overheads which could make this process easier.

Management Recommendation 6: EPMU should seek to hold audits (especially Article 13 audits) earlier in the project delivery lifecycle

10.46 Some projects have reported that they did not receive an Article 13 monitoring visits until near project completion. It is now recognised that Article 13 visits would ideally have been held sooner, though Moore Stephens' work has ensured that the overall timing and number of visits stayed on schedule. Early Article 13 monitoring visits are being scheduled going forward to ensure that projects have the correct systems in place.

Management Recommendation 7: EPMU should work with DCLG where possible to ensure that there is a strong understanding of audit requirements, systems and processes and that this is communicated correctly to projects (not an issue if a Managing Authority)

10.47 A major issue which has arisen during the current Programme has arisen as a result of Article 16 audits carried out by the Audit Authority in DCLG. The audits have identified a number of significant issues in terms of project delivery some of which have resulted in inconsistencies in interpretation by EPMU of advice based on guidance issued by the Managing Authority in DCLG. This has led to significant dissatisfaction amongst projects as a result of changes which have been necessary.

10.48 This issue is being addressed through greater levels of standardisation which is being introduced by DCLG which is ensuring that systems and processes are consistent. Furthermore, if the GLA were to become a Managing Authority this would not be an issue.

Management Recommendation 8: Ensure that changes to the Programme are communicated in a timely and effective manner

10.49 There have been a number of changes to the Programme (move from the LDA to GLA and the standardisation process) including changes to Programme guidance (e.g. timesheets and overheads). A number of projects reported that these changes have not always been communicated effectively. It appears that updated guidance is often posted on the London ERDF website and ERDF funded projects are not always aware of the changes. Project managers will often then have to retrospectively make changes to processes and information which can be time consuming. It is standard practice for EPMU to email all lead partners notifying them of the changes. It is possible that information is not communicated between staff for ERDF funded projects or that changes are not then communicated to delivery partners. EPMU should continue to ensure that lead partners are aware of changes (potentially through a dedicated newsletter), taking care to differentiate this from other forms of communication (i.e. highlighting their importance) so that they do not get lost in the round. They should also emphasise the need for lead partners to communicate changes to delivery partners.

# Appendix A Consultees

## Strategic Consultees

1. The following are the individuals we have consulted with in order to inform this evaluation:

| Name | Role | Organisation |
|---|---|---|
| Alex Conway | European Programmes Director | EPMU at GLA |
| Stuart Scott | Senior ERDF Development Manager | EPMU at GLA |
| David Hampson | Senior ERDF Delivery Manager | EPMU at GLA |
| Kenroy Quellennec-Reid | Senior Article 13 and Financial Engineering Manager | EPMU at GLA |
| John Joyce | Performance and Irregularities Manager | EPMU at GLA |
| Andrei Popescu, | ERDF Development Manager | EPMU at GLA |
| Pat Muotto, | ERDF Delivery Manager | EPMU at GLA |
| Dave Wardle | London Environment Manager | Environment Agency |
| Ian Nichol | Director | West London Alliance |
| Ray Wilkinson | Director | University of East London |
| Madeleine Williams | Managing Director | GLE Consulting |
| Simon Wyke | Environment Programme Officer | Greater London Authority |
| Laura Clayton | ERDF Business Process Manager | DCLG |
| Ruth Nugent Neil | Directorate General Regional Policy | European Commission |
| Mark Kleinman, | Assistant Director of Economic and Business Policy (ERDF and ESF Committee Chair) | GLA |
| Maria Diaz Palomares, | Policy Implementation Manager | GLA |
| Frank Lee | Head of Holding Funds | EIB |
| Peter Calliafas | London Green Fund Investment Board Member | London Waste and Recycling Board (LWaRB) |
| Dianna Neal | Head of Economy, Culture and Tourism at London Councils | London Councils |

## Project Reviews

2. Project Reviews have been carried out focusing on twenty projects which have been supported through the London 2007-13 ERDF Programme:

| Project Name | Organisation | Priority and Theme |
|---|---|---|
| Environmental Performance of Business Improvement District | Westminster City Council | 1.2 |
| FLASH | LTGDC | 1.2 |
| Innovate London | London Metropolitan University | 1.2 |
| Designer / Manufacturer Innovation Support (DISC) | Centre for Fashion Enterprise | 1.2 |
| EcoVate – advance Phase II | Centre for Environment and Safety Management – Middlesex University | 1.1 |
| E-Innovate: Building Innovation in BAME Businesses | Greater London Enterprise | 1.1 |
| Commercialising Digital Technology | Ravensbourne | 1.2 |
| Innovate Her | Newham College of FE | 1.1 |
| Greening Business in Hackbridge | LB Sutton | 1.1 |

| | | |
|---|---|---|
| GO Green Plus | Wandsworth BC | 1.1 |
| Creative Futures Partnership | Paddington Development Trust | 1.1 |
| Global London | Greater London Enterprise Ltd | 2.2 |
| Investing for Success | Enterprise Enfield | 2.1 |
| Finance for Change | LB Croydon | 2.1 |
| Tender Readiness for Social Enterprise | Social Enterprise London CIC | 2.2 |
| South London SME Finance Brokerage | Bromley College | 2.1 |
| Solutions for Business / Finance Readiness | LDA/GLA (speak to Grant Thornton) | 2.1 |
| Exporting Success – the Export Escalator | North London Business | 2.2 |
| JESSCIA | European Investment Bank | 3 |
| Belvedere Green Links | LB Bexley | 3 |

**Regeneris Consulting Ltd**

Manchester Office
4th Floor Faulkner House
Faulkner Street, Manchester M1 4DY
Tel: 0161 234 9910
Email: manchester@regeneris.co.uk

London Office
70 Cowcross Street
London, EC1M 6EJ
Tel: 0207 608 7200
Email: london@regeneris.co.uk

www.regeneris.co.uk