

MAYOR OF LONDON

LONDON ERDF OPERATIONAL PROGRAMME 2007 - 2013

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

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Executive Summary

This Operational Programme provides a framework for investment of the European Regional Development Fund (ERDF) in London for the period 2007-13.

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”.

This document was drafted in 2007. It was updated in November 2012 following an independent review of the ERDF programme. The overall content remains largely the same; however, some of the socio-economic data, the performance indicators and targets, the financial table and other narrative has been updated.

The chapter on socio-economic analysis relates London’s economic position to the central objectives for the Europe 2020 strategy (which replaced the EU Lisbon Agenda) and the Mayor’s Strategies for London. It highlights key strengths and weaknesses of the economy and provides an evidence base for the Operational Programme’s key investment themes (“Priority Axes”) and the more detailed indicative activities under each investment theme.

The socio economic analysis highlights that the overall economic performance of London is strong when compared to other regions. However, there is great variation in the distribution of the city’s jobs, skills and wealth across its diverse communities, and geographically. Overall, London has the highest rate of worklessness in England, and also some of the highest levels of local deprivation. There is therefore a need to address inequalities in London, so that all its communities are able to fully participate in and contribute to its economy.

ERDF will contribute to London’s development and to greater equality by particularly supporting business investment and growth in Small and Medium Enterprises (SMEs) that are led by black, Asian and minority ethnic (BAME) people, women or disabled people and which provide employment opportunities to deprived communities.

The Programme will promote greater innovation, collaboration and environmental efficiency for London’s SMEs. It will also support them in accessing new markets, including the emerging market in Asia, and in accessing the finance for investment that is often a major difficulty for small or new companies in London.

Alongside this, the Programme will invest in low/zero carbon infrastructure and physical environmental improvements which will help transform those areas of London with the largest scope for increasing job provision, and where the additional employment will particularly benefit Londoners from deprived communities.

These areas of London have been identified through the London Plan, the Mayor’s strategic development plan for London, as Opportunity Areas, and Intensification Areas for development, and Areas for Regeneration. All the Programmes investment themes have a focus on benefiting deprived communities, and the third investment theme (“Priority Axis 3”) will help to support the development of the London Plan’s priority areas.

The Programme's Investment themes will support the EU Lisbon agenda by enhancing London's economic performance. This will develop London's capacity for business innovation, entrepreneurship and for increased employment.

Strategic Alignment

The ERDF Operational Programme is aligned with the Lisbon agenda and the Mayor's Strategies for London. More than three-quarters of the investment funded under the ERDF programme will specifically support Lisbon objectives.

The key links are outlined below:

The EU's Community Strategic Guidelines (CSG) indicate that Structural Funds should target resources on three main priorities:

- Enhancing the attractiveness of member states, regions and cities
- Encouraging innovation, entrepreneurship and the growth of the knowledge economy
- Creating more and better jobs.

The UK's National Strategic Reference Framework (NSRF) proposes four priorities for ERDF Competitiveness programmes in England:

- Promoting innovation and knowledge transfer
- Stimulating enterprise and supporting successful business
- Ensuring sustainable development, production and consumption
- Building sustainable communities.

The key regional strategy relevant to European funds is the Mayor's Economic Development Strategy (EDS) for London. The EDS' vision is simply for London to be the best big city in the world by 2031 by expanding 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 that of climate change. Other key strategies for ERDF are the Mayor's London Plan, referred to above.

Investment Priorities ("Priority Axes")

This chapter sets out the broad investment priorities (called "Priority Axes" in European Commission terminology) identified in the London Operational Programme. These are:

1. Business innovation and research and promoting eco-efficiency
2. Access to new markets and access to finance
3. Sustainable green infrastructure
4. Technical assistance

Underpinning each of these Priorities there is a commitment to equality of opportunity and environmental sustainability, which is considered in more detail in chapter 5 of the Operational Programme. London is uniquely diverse, for example almost a third of the workforce are currently from black, Asian and minority ethnic groups and around 75% of the projected increase in resident working age population by 2026, will be from these communities. London also has huge environmental challenges and opportunities,

particularly in the area of climate change. These factors mean the cross cutting issues are of particular importance for London. The cross cutting themes also reflect the commitment by the UK Government in its national strategic reference framework for EU funds to incorporate cross-cutting themes of equality and environmental sustainability in all regions.

There are also some synergies between the ERDF and the parallel European Social Fund Operational Programme, which are considered in chapter seven.

There is no rigid spatial targeting for Priority Axes 1 and 2 although projects will need to demonstrate a particular focus on benefiting disadvantaged communities. Where possible Priority Axis 3 will seek to support development of London's Opportunity, Intensification and Regeneration Areas.

The key themes of the Priority Axes are described below; indicative actions for each Axis are provided in the main text.

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

The objective of this priority is to improve the capacity of London's businesses, particularly its Small and Medium Sized Enterprises (SMEs), to innovate through developing new products, processes and services, leading to increased growth, competitiveness and improved environmental performance. The Programme will also assist London's businesses in making the most of London's extensive knowledge base, so as to create new commercial opportunities and to effectively exploit new ideas. The two core themes identified under this Priority Axis are:

1. Developing a culture of, and capacity for, creating and using innovation throughout London's businesses to create sustainable economic growth
2. Leveraging value from London's world-class knowledge base to benefit London's economy.

Each theme will support specific services to businesses that address market failures and barriers to innovation. Planning for these services will take account of the Government's plans to simplify the routes to business support, to ensure duplication is avoided, and to ensure there is clear signposting for businesses of both ERDF funded and other services.

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

The activities under this investment theme will focus on the strategic barriers to growth faced 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. The Programme will also draw upon experience gained in previous projects to support projects to develop exports, sustainable procurement, and SME access to supply chains.

Two core themes have been identified for this Priority Axis:

1. Enabling access to appropriate investment finance to support innovation and growth
2. Improving SMEs' access to new market opportunities

Each theme will support services to business that addresses the market failures and barriers to accessing finance and new markets. As with Priority Axis 1, these will take account of the Government's plans to simplify the routes to business support.

Priority Axis 3: Sustainable Green Infrastructure

The main objective of this Axis is to support sustainable economic growth by investing in low/zero carbon environmental infrastructure and premises, physical environmental enhancement and the retrofitting of existing building, including social housing. This will help London's transition to a low carbon economy which will bring economic opportunities in terms of jobs and inward investment.

Activities falling under this Axis will complement UK Government economic policy and the NSRF; specifically ensuring sustainable development and the building of sustainable communities; and also the Mayor of London's spatial and economic development strategies.

The theme of this Priority is:

1. Supporting retrofitting, low/zero carbon environmental infrastructure and physical enhancement.

By addressing the market failures and investment barriers to environmental development and enhancement, this Priority Axis complements the first two Priority Axes, which focus directly on helping businesses to innovate and exploit new market opportunities.

Priority Axis 4: Technical assistance

This Priority Axis covers two themes:

1. Support, development and enhancement of the management of the London Operational Programme
2. Support to strengthen the implementation of the London ERDF Operational Programme Priorities.

This Priority Axis will play an integral part in the implementation of the programme by contributing to the effective and efficient management of the London Operational Programme and ensuring it is accessible to all London's communities.

The Programme aims to achieve a range of targets including:

Outputs expected from the Operational Programme	
Output Indicator	Target
No. of businesses assisted	19,557
No. of businesses within the region engaged in new collaborations with the knowledge base	1,500
No. of businesses involved in collaboration networks	2,500
Area of workspace gaining BREEAM rating of 'Excellent' or equivalent (meter square)	600
Brownfield land reclaimed and or redeveloped (hectares)	5

Results expected from the Operational Programme	
Result Indicator	Target
No. of jobs created	2,530

No. of jobs safeguarded	3,935
No. of businesses with improved performance	6,690
New sales generated	€107m
Additional capacity of renewable and co-generated energy production (MW)	40
New or refurbished buildings with environmental specification in line with the London Plan (metres squared)	5,500

Impacts expected from the Operational Programme	
Impact Indicator	Target
Increase in GVA	€127m
Increase in London's capacity to generate de-centralised co-generated and renewable energy	20%

Sustainable development and cross cutting themes

The London ERDF Operational Programme aims to make a positive difference to the lives of people living and working in London. Sustainable development is an overarching objective for the programme, and the cross cutting themes of equalities and environmental sustainability will ensure that the social and environmental elements of sustainable development are effectively integrated into the Programme alongside the economic element that is the Programme's primary focus.

This Programme will also seek to support inclusive and healthy communities that have access to local economic opportunities, high quality facilities and an attractive and diverse natural environment.

Environmental integration and investment will contribute to the growth of the local economy in three main ways. It will: ensure the long-term sustainability of economic growth; decrease internal and external environmental costs to the economy; and stimulate innovation and job creation.

Integrating environmental sustainability into the Programme and in particular the Mayor's major priority of addressing climate change, will help ensure the Programme contributes to key elements of the EU's Lisbon Agenda and the Cohesion Policy.

The socio-economic analysis demonstrates that many communities in London do not share equally in the city's economic opportunities due to barriers and market failures. Not recognising and utilising the wide range of skills that exist within London's diverse communities limits the potential not only of the individual but also the local and regional economies. To help ensure that equality and diversity issues are at the heart of the Programme at both the strategic and implementation levels, an Equalities Impact Assessment (EIA) was carried out for the Operational Programme by an external consultancy. The results of the EIA are attached in Annex A.

Coordination of ERDF and ESF

With reduced financial resources for Structural Funds in London for 2007-13, it is important to ensure an integrated approach across the ERDF and European Social Fund (ESF) programmes so as to maximise effectiveness.

The ESF 2007-13 Operational Programme for England has been designed by the Department for Work and Pensions (DWP). This is a national strategy that provides a strategic framework for investment of ESF across England.

Partnership involvement in the programme

To ensure stakeholders' involvement in the development of the London ERDF Programme, two rounds of consultation were carried out during the development of the Operational Programme. The first, a pre-consultation exercise, was held over six weeks from August until early September 2006. This was held at an early stage in the development of the Operational Programme to take advantage of the insights of key stakeholders in the initial shaping of the programme. The second, and main round, was a 12 week long, open public consultation on the draft Operational Programme, which ran from 21st December 2006 to 21st March 2007.

The written responses and the discussions held during the seminars have provided a wide range of valuable comments, which have been carefully analysed and considered. A number of key issues emerged and, where possible, these were incorporated in the final version of the Operational Programme. The ERDF Local Management Committee has been consulted on the 2012 revisions to the Operational Programme.

Through partnership working, the Mayor aims to avoid the duplication of programmes and to maximise overall effectiveness. He expects that key stakeholders will contribute actively to the Programme and help ensure it is complementary to their other areas of work.

In conclusion, stakeholder engagement will be actively encouraged, and the Mayor of London will champion the Programme and seek to ensure that all sectors are appropriately involved in its development and implementation.

Ex-Ante Evaluation and Strategic Environmental Assessment

An external consultant was appointed to undertake a preliminary ("ex-ante" in European Commission terminology) evaluation of the London ERDF Operational Programme 2007-2013. The ex-ante process evaluates the Programme using European Commission criteria. The process is interactive and iterative, and comments on emerging drafts have helped to inform the final version of the Programme. The summary version of the ex-ante evaluation is attached in Annex D.

An external consultant was also appointed to undertake a Strategic Environmental Assessment (SEA) of the London ERDF Operational Programme 2007-2013. The SEA has assessed the effects of the programme on the environment. Again, this assessment has been carried out in an interactive and iterative way, with the SEA team providing comments during the development of the Operational Programme, so as to contribute to the full integration of environmental considerations. The summary version of the SEA is attached at Annex E.

2. Socio-economic analysis

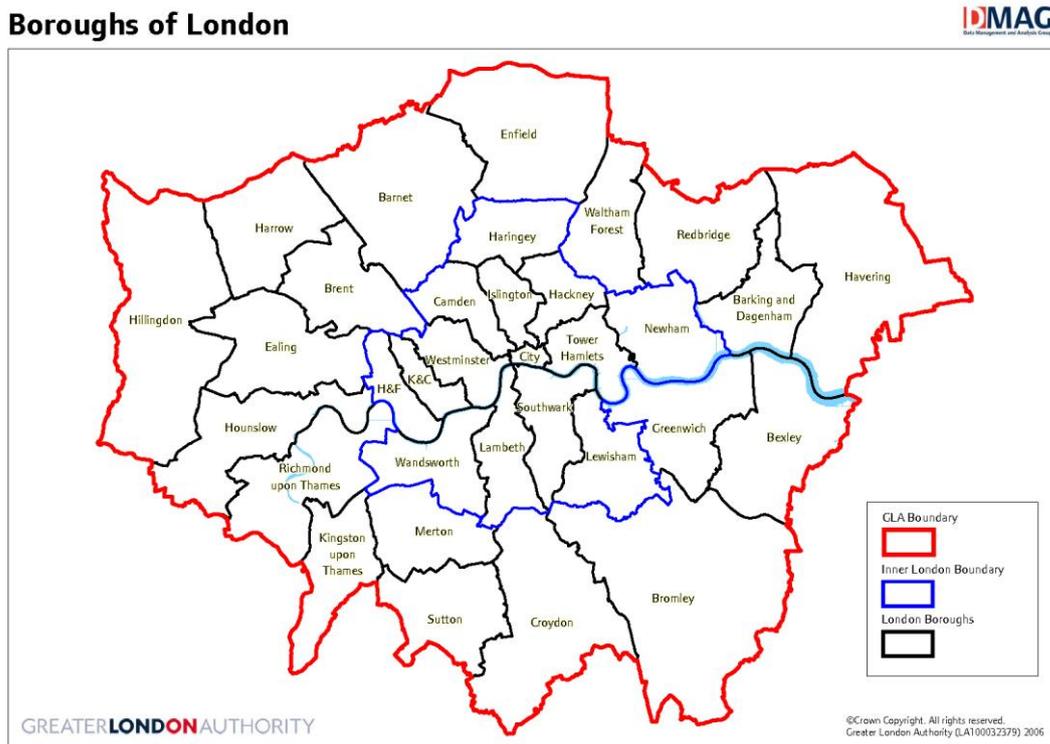
This chapter provides a summary baseline socio-economic profile of London, and was drafted in 2007. It relates the prevailing situation in London to the EU's Lisbon Agenda and to the relevant Strategies for London produced by the Mayor. The aim is to highlight

the key strengths and weaknesses of the London economy and to provide an evidence base for the Priority Axes, and the indicative activities that fall under them.

A 2012 update of key socio-economic data relevant is included at the end of this section.

2.1 Summary of London: strengths and challenges

Figure 1: Map of London showing borough boundaries



London is a world city, and a leader in financial services. The health of London's economy is vitally important for the rest of the UK, not only because of the financial resources and skilled people that it attracts, but also because of London's significant net monetary contribution to the national exchequer and its role in driving growth across other regional economies and indeed, acting as a European champion¹.

London's high overall prosperity masks dramatic inequalities within the city. Although London has a significantly higher overall per capita output than other parts of the country, it also has the lowest employment rate of all the English regions and linked to this, no less than 39 per cent of London's children are living in poverty².

Investment in London is necessary both to reduce these stark inequalities and to help ensure the future competitiveness of London's economy. This will benefit Londoners, the UK and the EU. In order to maintain London's competitive position and to ensure a decent standard of living for all its population, it is vitally important that Londoners are able to compete for jobs in the city's dynamic and competitive labour market. ERDF's contribution to London's development needs will be to address the issues surrounding

¹ GLA Economics (2005), *Growing Together – London and the UK Economy*.

² 39 per cent of London's children are living in households that have less than 60 per cent of median income after housing costs, based on a three-year average for 2002-2005. See Greater London Authority (GLA) Data Management and Analysis Group (2006) Social Exclusion Update 2006/2007.

business investment and growth for SMEs and in particular to help address barriers to SMEs led by women, and by black, Asian and minority ethnic and disabled people.

The remainder of this section provides a socio-economic analysis of the following areas, which are critical to promoting successful economic regeneration in London:

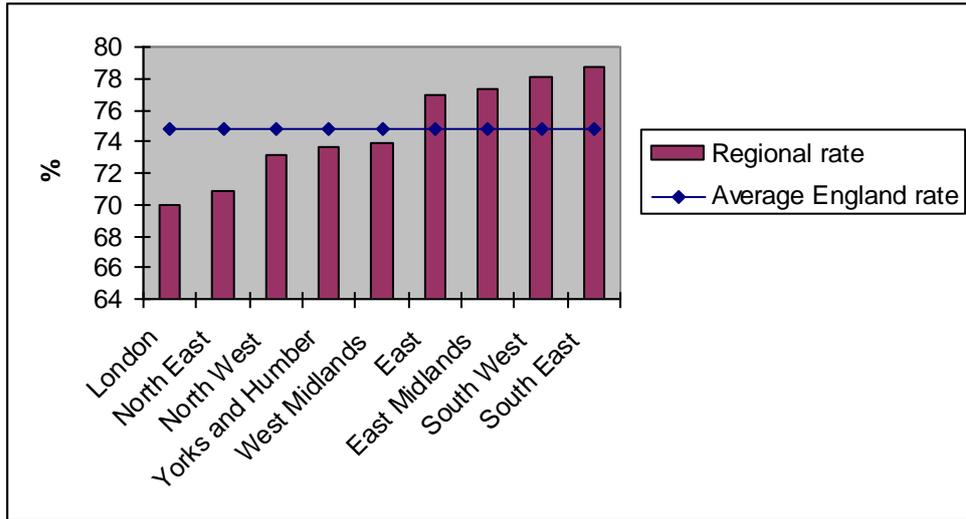
- Employment and Deprivation
- Competition
- Enterprise
- Innovation
- Skills
- Environmental profile and quality of urban space

2.2 Employment and Deprivation

2.2.1 Trends in employment

London has the lowest employment rate of all the UK regions. Figure 2 shows the employment rate in the region measured on a residence basis, reflecting the employment of those living in London.

Figure 2. Employment rates across the English regions

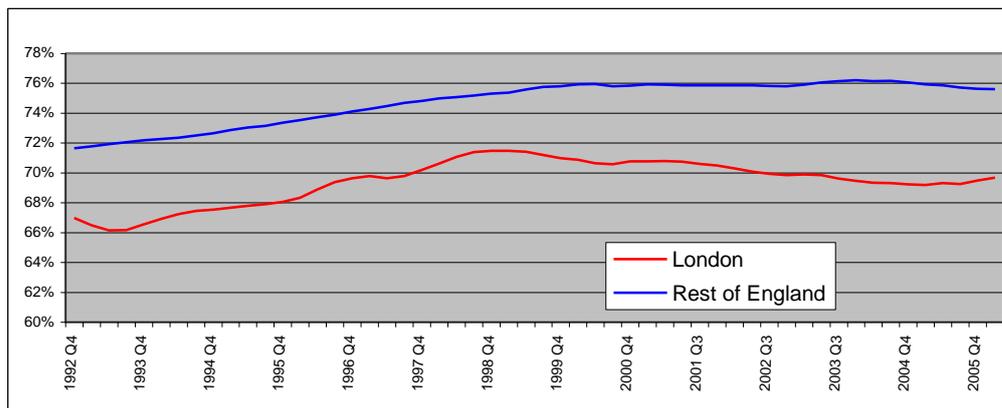


Source: Labour Force Survey

At 70.0 per cent, the employment rate in London is not only 8.7 percentage points lower than the South East, which has the highest employment rate of the English regions, but is also 4.8 percentage points below the average rate for England as a whole.

Historic data shows that during the 1980s, London's employment rate was higher than the UK average. This situation was reversed in the 1990s, and ever since London has had a persistently lower employment rate than other English regions. Indeed, Figure 3 shows that since 1999, the gap between the employment rate in London and that in the rest of England has been increasing.

Figure 3. Trends in the employment rate over time



Source: Labour Force Survey

2.2.1 Worklessness and deprivation

The persistence of high rates of worklessness not only acts as a drag on London's long-term competitiveness and growth, but also increases the challenge of bridging the growing inequalities gap within the city.

As figures 4 and 13 show, there is a high degree of correlation between those boroughs with employment rates significantly below the UK average and those with a high rank on the Index of Multiple Deprivation (IMD). In terms of spatial distribution, the relatively deprived boroughs are concentrated largely in inner London - an area with a population

of 3 million that covers the middle of London and spreads eastwards on either side of the River Thames.³

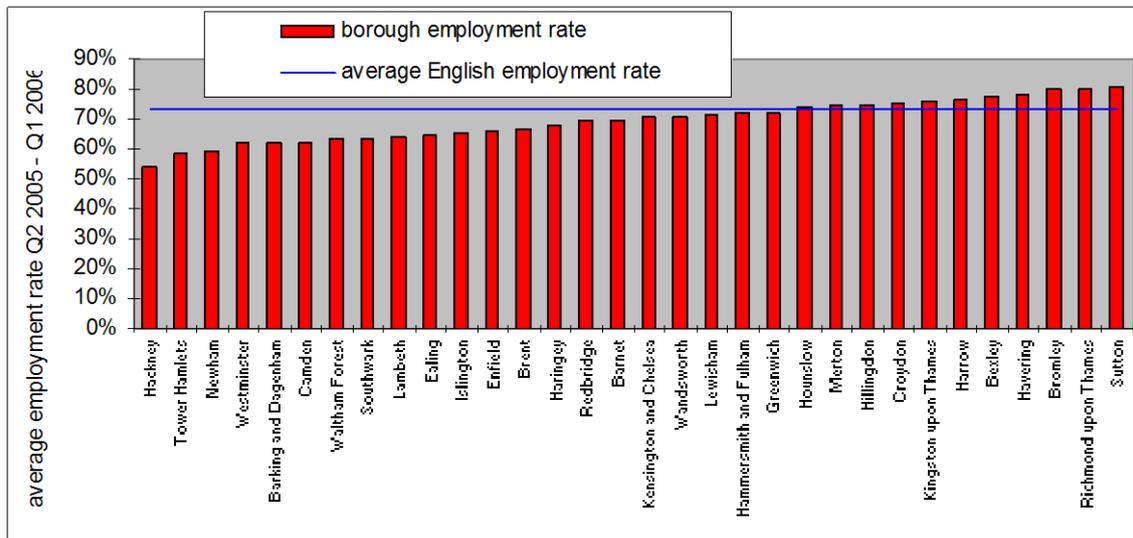
These areas have been designated as Areas for Regeneration in the Mayor’s spatial development strategy, the London Plan, and defined as:

‘those which currently suffer substantial social exclusion and economic deprivation, and where development can play a key role in pursuing the Mayor’s vision’

Within these Regeneration Areas, there are a number of Opportunity and Intensification Areas; these have the capacity to accommodate considerable jobs and population growth and are well served by public transport.⁴ Priority Axis 3 aims to promote sustainable regeneration in these opportunity areas, by addressing key barriers to sustainable growth.

These deprived areas are also most densely populated by ethnic minority groups, which have an average rate of worklessness of 42%, substantially higher than the rate of 25% for white ethnic groups.⁵ The worklessness rate figure is still higher for women with children and higher again for lone mothers and for mothers from black, Asian and minority ethnic backgrounds. Indeed London Divided 2002, reports that the deterioration of London’s labour market from the early 90’s reflects low employment rates for women over the age of 30. This marks a departure from the UK trend for female worklessness and it has persisted now for over 15 years, without showing any signs of abating.

Figure 4. Employment rates across London boroughs



Source: Labour Force Survey

There are further structural disparities between the employment rates of various groups of Londoners compared with their counterparts across England as a whole; in each case Londoners fare worse.

As is the case for the rest of England, all ethnic minority groups have lower employment rates than white ethnic groups. Based on ONS data for spring 2006, the employment rates for the major ethnic groups in London are as follows: white-74.7%, Asian-60.0%,

³ GLA (2002) *London Divided- Income inequality and poverty in the capital: summary*

⁴ See glossary of London Plan (February 2004)

⁵ Data Management and labour Market Outcomes in London, 2005 using labour force survey statistics for 2002-2003.

black-62.4%, Chinese-58.1%, other-49.3%. However, for every one of these groups, the employment rate in London is below that of the rest of England.

- Across England, the employment rate of working age women is significantly below that of working age men. However, in London this difference is greater than elsewhere (12 percentage points as compared with 9 for the rest of England).
- Employment rates for parents in London are significantly lower than for parents nationally. In contrast, employment rates for non-parents are similar for London and nationally.
- The employment rate of those aged between 16 and 24 is significantly lower in London than for the same age group across the rest of England.

2.2.3 Explaining London's high level of worklessness

There are several characteristics of London that contribute to its high unemployment rate. London has a younger population than the rest of the country, and of this working age population a higher proportion are full-time students. The proportion of the population from black, Asian and minority ethnic communities is also higher and London's labour market is known to be particularly competitive, in part because of the relatively high inflows of commuters and migrant labour. However, after taking these factors into account there is still an unexplained element to London's high worklessness rate.

The most important of the structural characteristics identified above for the ERDF programme is the high worklessness rate for BAME groups. Around 75% of the projected growth in the labour force between 2006 and 2026 will be from the BAME population.⁶ Under-utilisation of this pool of potential workers is not just economically wasteful but it will increase London's inequality gap yet further.

2.2.4 The nature of jobs in London

Projections suggest that the number of jobs in London will increase by 970,000 between 2003 and 2026⁷. Due to the changing industrial structure of London, and in particular its increasing dependence on the services industry, the nature of jobs in London will change over this period. Figures 5 and 6⁸, illustrate the changing spread of jobs across the different sectors of London since 1971 and projected forward to 2026.

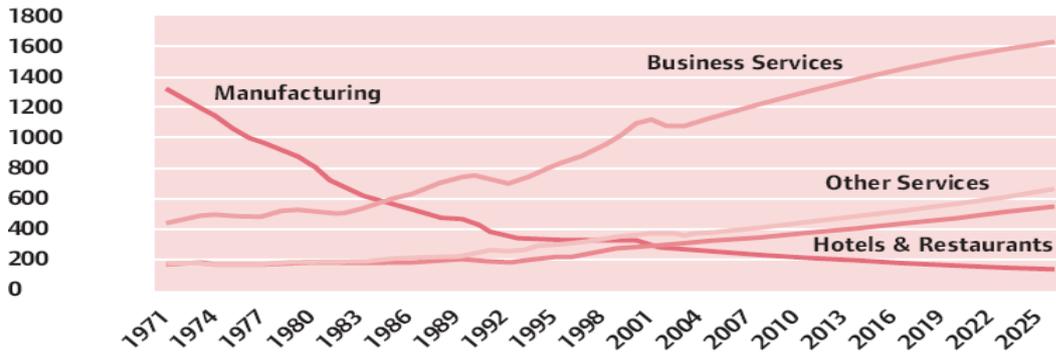
⁶ Source: DMAG Briefing 2006/22 interim ethnic group population projections

⁷ GLA Economics (2005) *Our London. Our Future. Planning for London's Growth II*. Main Report. November. p40

⁸ Ibid.

Figure 5. Employment trends over time in the manufacturing, business services, hotel and restaurant and other services sectors

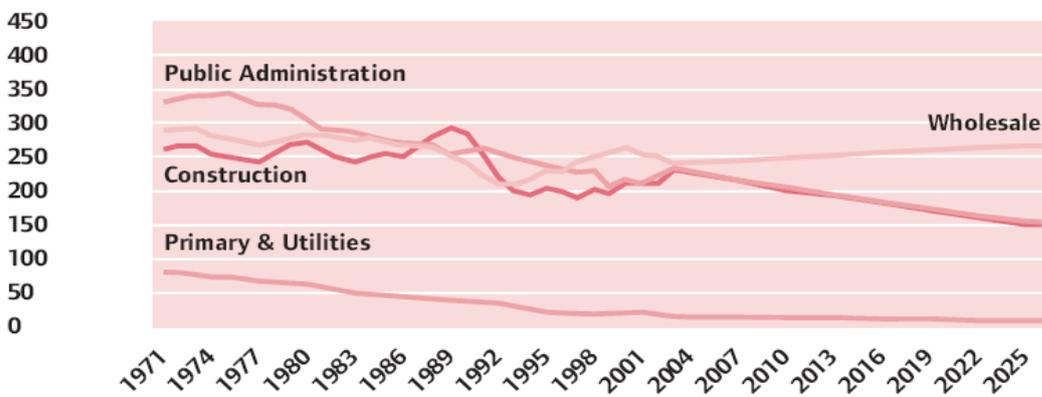
Thousands (Actual 1971-2002, Projection 2003-2026)



Source: Volterra Consulting

Figure 6. Employment trends over time in the public administration, wholesale, construction and primary and utilities sectors

Thousands (Actual 1971-2002, Projection 2003-2026)



Source: Volterra Consulting

These graphs illustrate the trend of a continuing decrease in jobs in manufacturing and utilities, and the increasing importance of services, particularly business services. These trends reinforce the conclusion that London’s comparative advantage lies in the strength of its financial and business sectors (F&B) and that London is becoming increasingly specialised in these services.

Implications for Equality

Almost all the growth in full-time employment in London since the early 90’s has been for those who possess a university degree or above. Skilled manual and clerical jobs have been declining since 1992, and the growth in lower paid occupations has primarily been in part-time service jobs.⁹

The polarising effect of these structural changes has been heightened by the fact that earnings growth in lower paid jobs - done predominantly by women and ethnic minorities- was significantly less than in the skilled service sector. For men, the

⁹ GLA (2002) *London Divided- Income inequality and poverty in the capital: summary*
London ERDF Operational Programme 2007-13 (updated December 2013)

percentage point shortfall in earnings growth between 1991 and 2001 was 17 percentage points, and for women it was 19 percentage points.¹⁰

2.2.5 Equalities Profile

- An assessment of employment rates in London highlights the relatively low employment rates for women, black, Asian and minority ethnic and disabled people:
- The female employment rate for 2006 was under 63%, significantly lower than the national average, which is approximately 70%.
- The black, Asian and minority ethnic employment rate for 2006 was 58%, while the equivalent rate for white ethnicity groups was 75%.
- Based on 2001/02 Population Census figures, 11% of the working age disabled population is unemployed; the comparative figure for the non-disabled population is 6.7%.
- At 19%, disabled people from black, Asian and minority ethnic groups face even higher unemployment rates.

2.2.6 SWOT analysis

- **Strengths:** London is home to a number of dynamic and growing sectors, and in particular has a thriving base of financial and business services.
- **Weaknesses:** the low employment rate compared to the other regions of the UK, as well as considerably worse labour market opportunities for women, black, Asian and minority ethnic groups, lone mothers and disabled people.
- **Opportunities:** The projected growth in London's population and economy could provide important opportunities for many of London's currently workless, if they are assisted with the right skills and support. The 2012 Olympic Games provided a focus for such opportunities.
- **Threats:** With the changing demographic structure of London, there is a danger that the employment gap between London and the rest of the country may increase, unless action is taken to increase the skills of the resident labour force and to support London's workless in finding employment.

2.3 Competition

Competition is desirable as it drives businesses to become more innovative and efficient. However, there may be barriers that prevent certain businesses from being able to compete to their full potential. These include issues of access to finance and to information that can have a debilitating effect on start-ups and small businesses or limit their opportunities to grow.

London's competitiveness within the modern globalised economy is important not just to London itself but also to the UK as a whole. A DTI research paper¹¹ concludes that there is clear evidence that the benefits to UK prosperity from increased international trade and investment are potentially large. These benefits come through a range of different channels:

- direct and indirect productivity effects on UK firms
- competition effects
- innovation effects

¹⁰ Ibid.

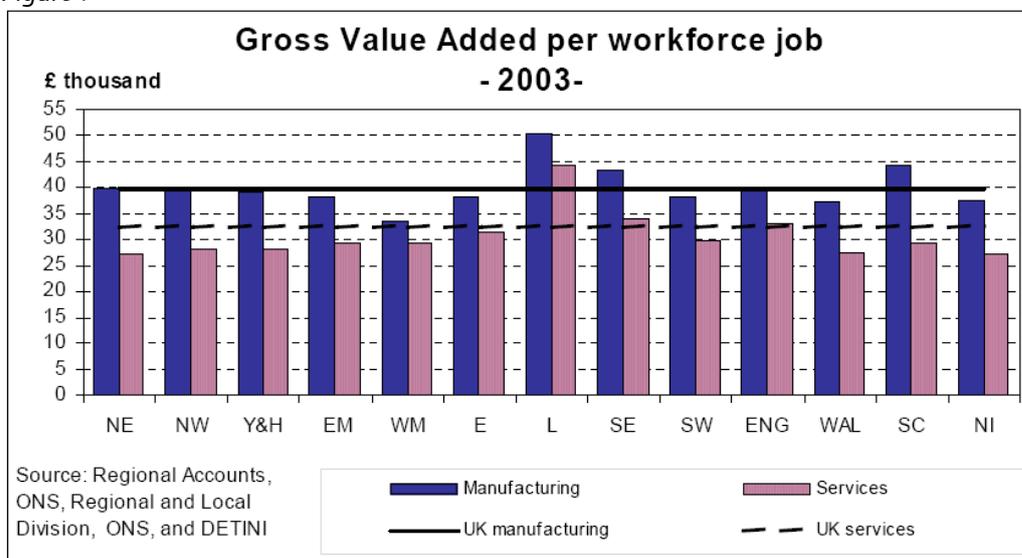
¹¹ DTI Economic Papers no 18 'International Trade and Investment – the Economic Rationale for Government support' London ERDF Operational Programme 2007-13 (updated December 2013)

However, a sub-section of London’s businesses are unable to fully seize global market opportunities and compete in important growing markets, not only domestically but also abroad. For instance in majority black-owned businesses just 1.2% of sales went to overseas markets. The same figure for Asian-owned businesses was 11.3%, for mixed-origin ownership it was 4.9% and for white-owned businesses it was 14.6%.¹² Whilst there will be a number of reasons for these differences, they suggest that there is value in providing targeted support to SMEs that are currently not fully exploiting global market opportunities. There may also be opportunities to build on the strong links between fast growing emerging markets and London’s communities originating from the relevant countries.

2.3.1 National comparison

There is no single clear indicator against which to measure the extent of competitiveness in one region as compared to another. However, GVA per worker is widely held to be the most useful indicator of competitiveness. In this respect London as a whole outperforms all of the UK regions. However, such aggregate statistics disguise the large disparities in performance within London’s businesses. For example, data from the London Area Business Survey 2005 (LABS) shows the median turnover per employee (a proxy for productivity per worker) was £58,333 for white owned businesses but was just £20,000 for black owned and £25,000 for Asian owned businesses.

Figure 7



Source: DTI¹³

2.3.2 International comparisons

There are a number of surveys that compare global financial cities. Research carried out for the City of London in 2003 found that, compared with the other major financial cities of Paris, New York and Frankfurt, London was perceived as having the most attractive regulatory environment.

However outside the Finance and Business services sectors it is not clear that London’s businesses have the same internationally competitive edge, in particular for small and micro-enterprises, and the low export rates for some SMEs referred to above reinforce this concern.

¹² LABS 2005

¹³ DTI (2006) ‘Regional Competitiveness & State of the Regions.’ p9

2.3.3 Linkage between competitiveness, entrepreneurship and innovation

Some of the competitive constraints encountered by certain sections of London's SMEs highlight the close linkage between competition, entrepreneurship and innovation.

There are two broad sets of issues that act to limit the competitiveness of such enterprises. The first relates to problems inhibiting innovation resulting in low levels and low quality of innovation. Potentially innovative businesses can be constrained by factors such as a lack of understanding of the importance of competitiveness and investment, and a lack of market intelligence. These are the types of concerns addressed by Priority Axis 1 activities.

A second set of problems relates to the inability of businesses to identify commercial opportunities for the realisation of their innovation, due to barriers in accessing finance and appropriate business support.¹⁴ This is illustrated by the weak engagement of certain small businesses in international trade referred to above. Such issues are addressed by the activities that fall under Priority Axis 2.

2.3.4 SWOT analysis

- **Strengths:** London is seen as a top world city by corporate investors, having a very favourable investment climate and a relatively friendly regulatory framework.
- **Weaknesses:** Areas of poverty and under-investment limit the ability of certain businesses to become more productive, as a lack of access to critical knowledge, finance and business support can be big constraints.
- **Opportunities:** Overcoming the barriers that limit the performance of some firms could enable them to compete in London's very dynamic market and to take advantage of the city's strengths as a global city, including the strong representation among its residents of communities from countries with fast growing emerging economies.
- **Threats:** London's overall economic potential is reduced due to some businesses missing commercial opportunities as a result of market failures. This impacts most on deprived communities, aggravating inequalities in London.

2.4 Enterprise

This section will outline some of the key challenges faced by enterprises in London and set out evidence on the sort of policy interventions that are appropriate in order to improve the competitiveness of London's economy.

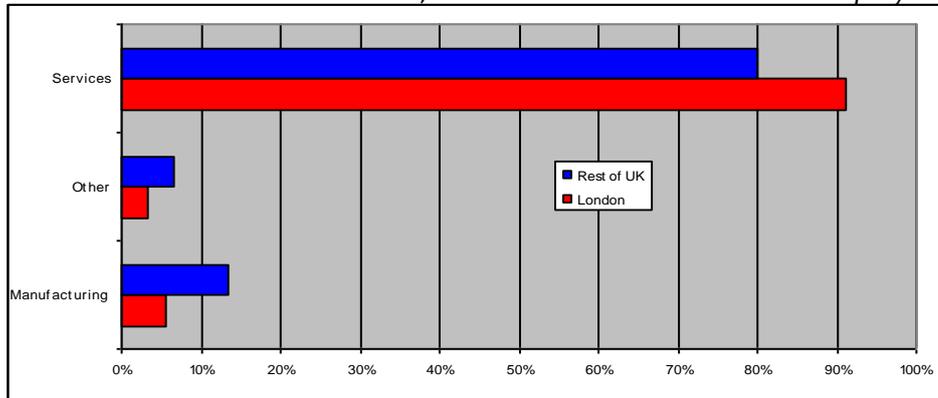
New businesses are important because they can be significant drivers of productivity growth and innovation in the economy. They are also important generators of employment. For example, one in thirteen (7.6 per cent) of London's businesses were opened in the 12 months prior to the LABS 2005. The 25,832 new business openings in 2005 are estimated to have created 283,841 jobs in London, an average of 11 jobs per opening. This is equivalent to 8.7 per cent of total employment.

2.4.1 The nature of enterprise in London

¹⁴ Innovation is defined within a flexible framework, specifically using the four indicators adopted by LABS (New products/services, existing products/services, major new equipment and major changes in working practices)

London's industrial structure is different to that of the other regions of the UK. As shown by Figure 8, firms offering professional business services, particularly in banking, finance and insurance, are much more dominant in London than in the rest of the UK. This is a reflection of marked changes in London's industrial structure over the last 30 years, as shown in Figure 5.

Figure 8. London's industrial structure, 2004 Source: Annual Business Inquiry¹⁵



2.4.2 The nature of London's business base

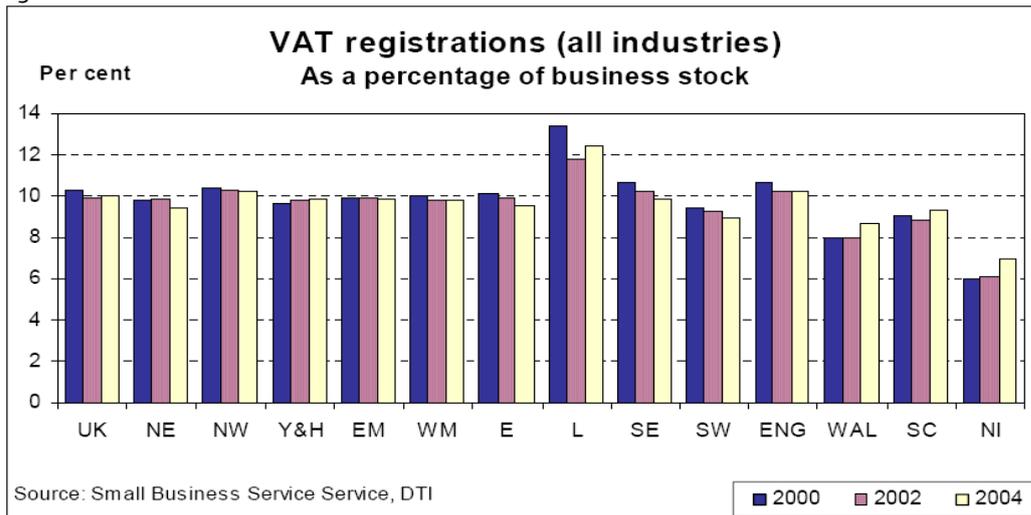
There are 642,100 private enterprises in London. Approximately 164,000 of these employ other workers in addition to the business owner, and the remaining 478,100 are sole proprietorships and partnerships comprising only the self-employed owner-manager(s) and companies comprising only an employee-director¹⁶. There are 303,700 private enterprises that are VAT-registered.

A further important characteristic of enterprise in London is the high turnover in the number of businesses in the region. Compared to other regions of the UK there are a high number of business start-ups in London each year. However, this is matched by a high number of business closures (as illustrated in Figures 9 and 10). As noted earlier, this high level of turnover contributes to the competitiveness of the region, and so the high closure rate is not, of itself, necessarily a problem. The case for intervention is that certain SMEs are disadvantaged because of factors such as difficulty in obtaining finance or lack of access to adequate business support.

¹⁵ The three broad sector groups have been constructed to match those used by the Office for National Statistics in 'Research and Development in UK Businesses, 2004 (MA14)'. This adopts a broad definition of the services sector, including public administration, wholesale and retail trade and transport, together with the more obvious service sectors.

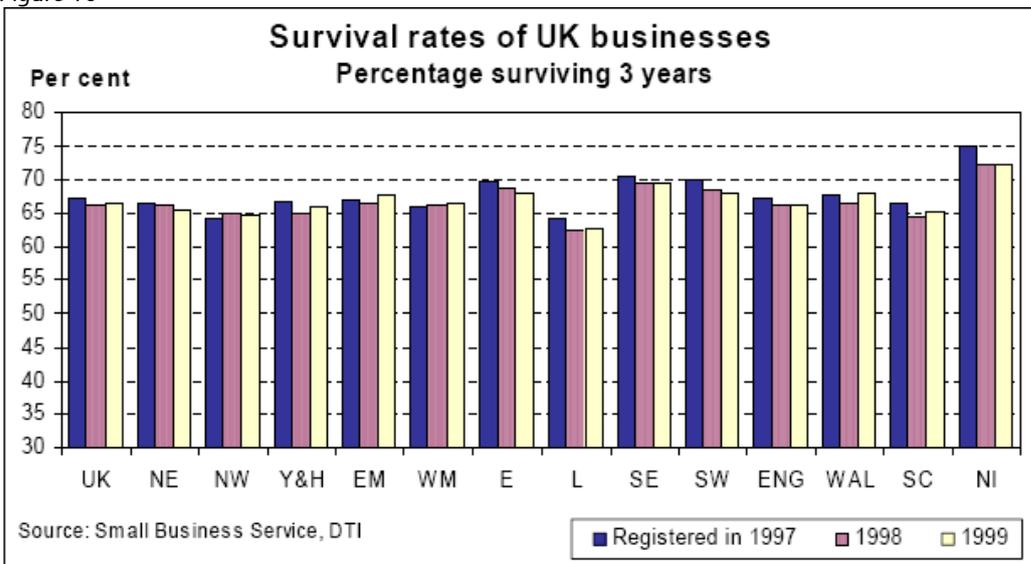
¹⁶ Small Business Service, 2003.

Figure 9



Source: DTI¹⁷

Figure 10



Source: DTI¹⁸

2.4.3 Barriers to enterprise

The relatively low business survival rate in London and experience gained through extensive work with London SMEs by the LDA confirm that among some of London's small businesses there are significant barriers to enterprise. The principal statistical evidence source used here is the London Annual Business Survey for 2005.

The availability of appropriately skilled labour and the issue of crime have been identified by businesses as two of the most significant problems they face in each of the last three years of the survey, and the level of concern regarding the former has increased over previous years.

Black, Asian and minority ethnic owned businesses had the lowest success rate in obtaining bank finance. The issue was particularly acute for black owned SMEs; with

¹⁷ Department for Trade and Industry (2006) 'Regional Competitiveness & State of the Regions.' p30

¹⁸ Department for Trade and Industry (2006) 'Regional Competitiveness & State of the Regions.' p32

75.5% of these approaching banks for finance (for white and Asian owned the proportions were 58.5% and 51.7% respectively); but achieving a success rate of only 44.2% as compared with 68.8% for white owned and 57.4% for Asian owned SMEs.

Majority female owned businesses constituted only 16.7% of London's businesses in 2005. Although this is an increase from 9.7% in 2003, the figure is still low and indicates there are barriers to women setting up and /or maintaining their businesses.

Only 2% of London businesses in 2005 were majority-owned by individuals who were classified as disabled. This is a significant under-representation of the underlying disabled population, which constitutes 17% of the working age population.¹⁹

2.4.4 Overcoming barriers to the growth of enterprise in London

The issues illustrated above for entrepreneurship in London can lead to the following summary of barriers that can be addressed through ERDF.

- acquiring appropriate management skills and capabilities to develop and implement commercial strategies in a rapidly changing business environment, due to lack of information or appropriate resources to access such skills and capabilities.
- acquiring best practice business knowledge, to help ensure that the wide gap between the practice and knowledge of the most successful businesses and other businesses can be effectively bridged, for example by business to business networks that provide opportunities for collaboration and knowledge exchange.
- acquiring information about getting access to new business opportunities in fast changing markets both within London and internationally.
- accessing business finance.

In addressing these barriers, resources need to be focussed where they are most needed, given the clear evidence that such barriers are much greater for some communities in London than others.

2.4.5 SWOT analysis

- **Strengths:** the high level of business start ups in London reflect the city's vibrant entrepreneurial culture, although this is not equally spread through all London's communities.
- **Weaknesses:** There are a number of barriers to entrepreneurship that prevent many London SMEs, particularly those owned by women, black, Asian and minority ethnic and disabled people, from reaching their full competitive potential. This reduces London's overall productivity and means that some communities in London have reduced economic opportunities.
- **Opportunities:** Projected growth in London's population and income, and London's good links with key fast growing emerging economies and globally, can provide major opportunities for enterprising businesses.
- **Threats:** The relatively low level of skills and entrepreneurship and high levels of crime and vandalism in some of London's communities could impact on local business growth

¹⁹ Disabled people and the labour market, DMAG Briefing 2003
London ERDF Operational Programme 2007-13 (updated December 2013)

and productivity and mean that these communities, and businesses within them, continue to lack economic empowerment.

2.5 Innovation

2.5.1 Measuring innovation in London

Innovation is a key driver of productivity and growth as identified, for example, by the Treasury (the other key drivers they identify are investment, skills, competition and entrepreneurship). However, measuring innovation is difficult, as its nature depends on the structure of an economy. As noted earlier, national government's focus on R&D spend as a key indicator for innovation is not entirely appropriate for London, which has a low score on R&D, although overall it is the most productive region of the UK.

A key reason for this is the service oriented structure of London's economy and the dominance of the finance and business sectors, which do less formal R&D than sectors such as manufacturing or pharmaceuticals. In other regions this effect is less pronounced with the service sector accounting for 80% of all jobs in the rest of the UK, while it accounts for 91% in London, of which a high percentage is finance and business.²⁰

An indicator of innovation potential that is particularly relevant to London is the density of higher education institutions. London is home to 43 higher education institutions and over 370,000 higher education students. It seems likely that these higher-level institutions generate productivity enhancing externalities, in a similar way to the productivity benefits described in section 2.3 for foreign direct investment.

2.5.2 Need for investment in innovation

The LABS highlights the importance of investment in innovation, with half of the surveyed businesses stating that they had introduced some form of innovation in the last 12 months. Indeed the survey indicates that investment in Information Technology, product and service development, and training is associated with growth in productivity and profits. Furthermore businesses that invested in process based innovation, such as introducing major changes to working methods and/or workforce organisation, were likely to see growth in both productivity and employment. Indeed, innovation seems to be critical to maximising success, as those businesses that compete primarily on price had the least growth in productivity and profits.²¹

The justification for intervention to promote or increase the levels of innovation amongst London's businesses is twofold. The first is a general argument based on economic theory: market forces will lead to under-investment in innovation, since private firms cannot capture the full benefits of their innovation. The second, based on London specific evidence including LABS, as discussed above, shows differential experience and outcome between different categories of SME, which suggests that there are barriers limiting the growth of some SMEs. In particular, the relatively low success rates for black, Asian and minority ethnic business, especially black-owned businesses, in securing bank finance has been highlighted.²² A number of activities under Priority Axes 1 and 2 seek to address these concerns.

2.5.3 Research, development and innovation

²⁰ GLA Economics 'Innovation in London' 2007

²¹ LABS, pp96-102

²² LABS, p129

Despite the issues raised earlier regarding the relevance of R&D as a measure of productivity in London, it is still useful to review the available data on this, whilst bearing in mind its limitations (particular as an indicator of innovation in the service sector).

Which businesses undertake R&D?

According to LABS (2005), larger businesses were more likely to undertake R&D, with the percentage increasing from 37% for firms with 10 to 50 employees, to 48% for those employing 50-99.

By sector, R&D undertaken was as follows: publishing (48%), business and professional services (39%), construction (16%), hotels and restaurants (19%), wholesale and retail (22%), and transport and communications (26%). Only 25% of Asian owned businesses undertook R&D, compared with 32% and 31% of white and black-owned enterprises. These statistics most likely reflect high Asian representation in the wholesale, retail and the hotels and restaurants sectors. Therefore it is difficult to gauge the balance between ethnicity of ownership and business sector in influencing how far R&D is undertaken.

Of the R&D that was reported in LABS, 49.5% of this was undertaken in collaboration with 'another party', usually other businesses or head office. Interestingly, very few businesses reported seeking advice from research institutions or the technical or trade press. Given the density of higher education and research institutions in London an important policy question is whether businesses encounter barriers in working with these institutions (including lack of information about useful research), or if their work is irrelevant to these businesses. Given this uncertainty, interventions should aim to remove barriers rather than seek to force collaboration where there may not be value for business. This approach is very much that proposed in the knowledge transfer and knowledge exchange programmes under Priority Axes 1 and 2, as discussed below.

Knowledge Exchange and Knowledge Transfer

The transmission of knowledge is a critical part of innovation, and the facilitation of knowledge exchange and transfer is an important factor driving some of the most successful economic clusters (including the finance and business services cluster in central London). This is because access to relevant information is costly, especially for small SMEs which are not plugged into the knowledge networks that facilitate the exchange of this information. Indeed, spatially London's black, Asian and minority ethnic owned SMEs tend not to be located within the city's finance and business services growth hubs, where the cost of commercial office space effectively prices them out. Instead many of London's smaller businesses are located outside of the high growth areas making it more difficult for them to access information that could be potentially valuable to them. Priority Axis 1 aims to tackle some of these issues, through support for knowledge exchange networks that seek to connect target SMEs with enterprising businesses elsewhere and with higher and further education institutions.

2.5.4 Innovation and the environmental sector

The environmental sector

In terms of facilitating innovation and promoting greater progress in addressing the huge environmental challenges we face, the environmental sector is a crucial one. In *Green Alchemy: Turning Green to Gold*, the London Development Agency (LDA) has analysed the sector and its role in London's economy. The sector is defined broadly in this report to include parts of the business sector; finance sector; voluntary/not-for-profit sector; public sector (national/international); and the education sector.

The report estimates that 140,000 workers are employed in the environment sector, and identifies the following key features of the sector in London:

- much of the business is business-to-business trade
- large and medium-size businesses lead the sector
- it is driven by increasingly stringent environmental regulations
- there is limited involvement of black, Asian and minority ethnic communities.

Innovation in the environmental sector

Innovation in the environmental sector feeds through into the economy at two levels. Firstly it can help other sectors to improve their eco-efficiency performance, and secondly it is a source of growth in its own right. Indeed to some extent both factors are mutually reinforcing: as 'green' products and services become better established and their costs fall, the pressure on businesses and public bodies to improve their eco-efficiency performance increases, further expanding the market. It is also clear that this market is growing rapidly globally, not just within the UK, and so there is a link with proposed programmes to strengthen global market intelligence and access for London SMEs.

For London's firms engaging in R&D, the environmental sector has the highest spend on R&D per employee. Furthermore with 87% of environmental businesses undertaking external R&D collaboration, the sector has the highest value of this indicator for innovative collaboration.²³ However only 17.5% of environmental SMEs undertook R&D in the 12 months prior to the survey; this is well below the average for all sectors, which is 31.5%. It is also surprising given the perception of the dynamic nature of the market and the demand for more ethically and environmentally friendly products and services.

Recent research for the London Plan²⁴ also finds that there are specific market failures in the London environmental business sector, reflecting a lack of information and shortages of key skills

This data suggests that the specific nature of R&D in this sector may imply large but concentrated spend, and that there may be access to finance and information issues limiting many smaller environmental businesses from undertaking R&D.

An enterprising and innovative environmental sector is crucial to meeting the rapid growth in demand for environmentally friendly products and services from a growing market on the demand side. Similarly on the supply side dynamism is important in underpinning R&D and relevant collaboration with London's strong higher education base. At the highest level, the Stern report recognises that climate change represents a

²³ LABS 2005, pp148-150.

²⁴ Arup, Evidence Base: Climate Change in the Further Alterations to the London Plan', April 2007
London ERDF Operational Programme 2007-13 (updated December 2013)

market failure of monumental proportions, and it is therefore appropriate for the public sector to intervene in this area.

More specific market failures in this area that may need to be addressed in London include barriers limiting the transfer of knowledge between environmental SMEs and London's higher education institutions, and the lack of sufficiently clear information on the benefits of environmental action which may mean potential business purchasers of environmental technology, for example to reduce carbon emissions may not do so. Addressing eco-efficiency and carbon emission reduction is woven through all the three main Priority Axes.

2.5.5 SWOT analysis

- **Strengths:** London's high overall GVA per worker demonstrates high overall productivity and innovation. Furthermore the high density of further and higher education institutions is one of the greatest assets of the city.
- **Weaknesses:** The evidence suggests certain types of business are less successful in innovating and highlights particular challenges for some black, Asian and minority ethnic owned enterprises, and for some smaller companies involved in environmental technology.
- **Opportunities:** the successful exploitation of the R&D carried out by higher education institutions in London through effective knowledge transfer networks.
- **Threats:** Market failures may inhibit sufficiently rapid development of environmental technologies and implementation to meet the scale of the challenge posed by climate change.

2.6 Skills

2.6.1 Measuring skills in London

A significantly higher percentage of the workforce in London has high level skills than in the other regions as illustrated in figure 11. In 2004/05 this proportion stood at 33%. However, there are large disparities across ethnic groups. According to 2002/03 ONS data, only 27% of those from black, Asian and minority ethnic backgrounds have higher-level qualifications. The comparable figure for UK born white London residents is 36.7%. This is also reinforced by the significant spatial variation between boroughs with the City of London at one end of the spectrum with 74.4% of its population educated to NVQ4+, while Barking and Dagenham stands at the other extreme with only 15%. (see figure 12).

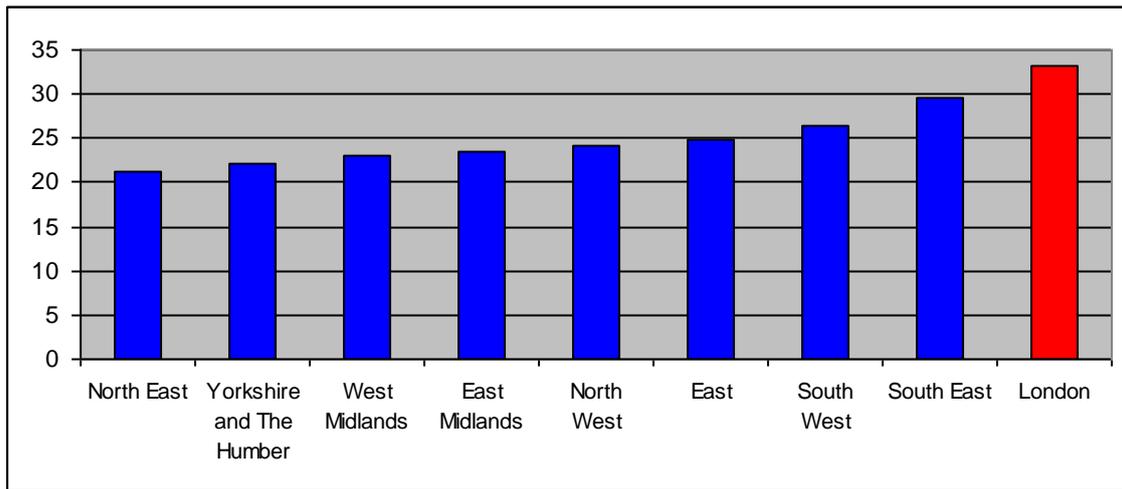
The more deprived boroughs, as measured by the IMD, tend to have a below average proportion of their population with high skills. Skills deficits and high unemployment are intrinsically linked, as alluded to in section 2.2. The relatively low skills base of many black, Asian and minority ethnic groups prevents them from accessing high quality employment opportunities, which are the main route out of poverty. Increasing the skills of London's deprived communities is a key part of any development strategy. Indeed, this is where complementarity between ESF and ERDF is critical.

While ERDF seeks to bolster the entrepreneurial and innovative potential of businesses owned by these minority groups and by women, ESF tackles the wider skills related issues

that have been discussed. Therefore in order for activities under ERDF to have an impact in spurring innovation and growth in disadvantaged areas, parallel progress under ESF is critical. While ERDF funds will seek to make high quality jobs accessible to these target groups, they will only successfully acquire these jobs if they have the right skills. An integrated approach across the two funds, and indeed other related programmes, should mean that intervention harnesses the full productive potential that exists in disadvantaged areas, both in terms of its labour force and its businesses.

Projected growth in population can be a huge asset if London can ensure that most of its population are highly skilled. A virtuous circle could be achieved from the combination of innovative high growth businesses and a highly skilled resident workforce.

Figure 11. High level skills across England’s regions: percentage of the workforce with NVQ level 4 or above

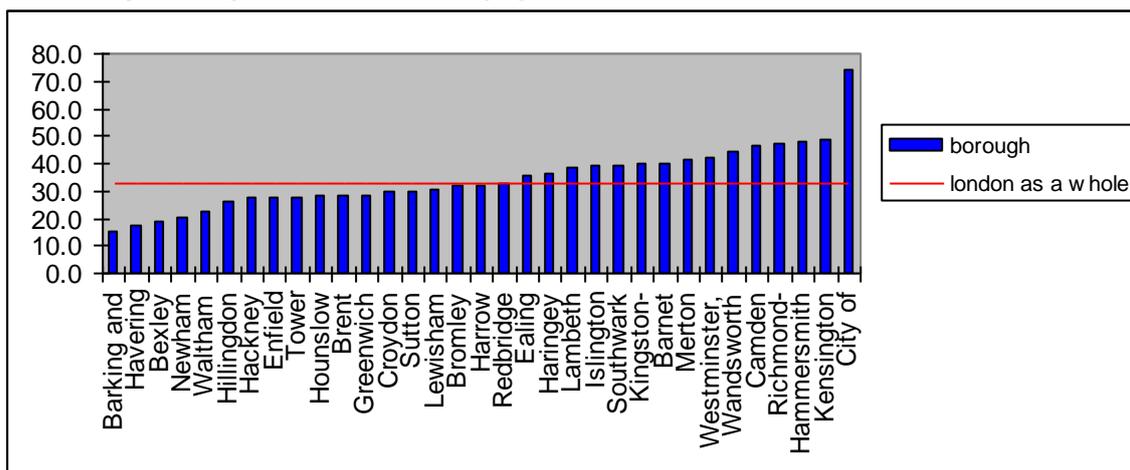


Source: Labour Force Survey²⁵

Figure 11 illustrates that, as a percentage of the working age population, London has a larger number of people with higher skills levels overall, particularly NVQ level 4, than do the other regions of the UK.

²⁵ Figures are four quarter averages for the period January 2005– December 2005.
London ERDF Operational Programme 2007-13 (updated December 2013)

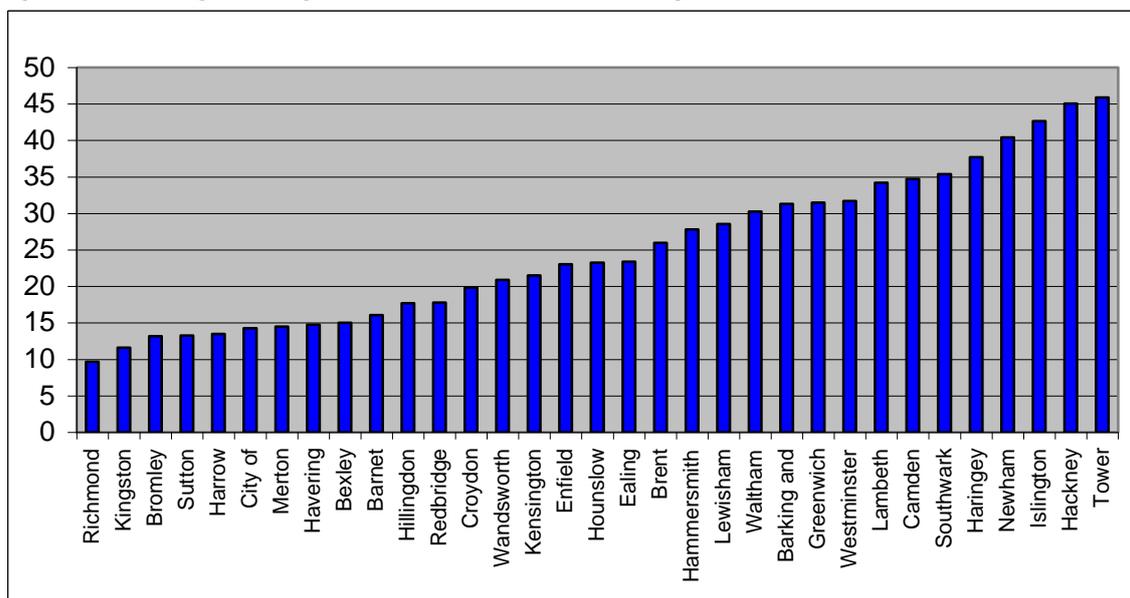
Figure 12. High skills levels compared across London boroughs – those with NVQ level 4 and above as a percentage of those of working age



Source: Annual Population Survey²⁶

Figure 12 shows that some parts of London have much lower levels of high skills. Comparing Figure 12 and Figure 13 shows there is a close correlation between areas with lower skills levels and those with high deprivation.

Figure 13. Average borough IMD score 2004 (1 is least deprived)



Source: Indices of Multiple Deprivation, 2004

2.6.2 SWOT analysis

- **Strengths:** the relatively high overall skill level of the workforce, which is a key resource for innovation and increasing business productivity.

²⁶ ibid

- **Weaknesses:** the large proportion of London residents with no or low skills, which is particularly marked amongst black, Asian and minority ethnic communities and concentrated in London's regeneration areas.
- **Opportunities:** growth in London's population, including from in-migration presents an opportunity for businesses to harness the potential of a youthful and diverse labour market. To maximise this will require sufficient investment in skills, and in particular those skills most needed by businesses in their workforce. The new London Skills and Employment Strategy will help ensure an integrated approach to this issue.
- **Threats:** not all Londoners will be able to effectively compete for the additional jobs created by growth due to skills gaps and a competitive labour market.

2.7 Environment

Role of intervention

The environment and its links to the economy represent key challenges to any society. As the following analysis shows, London faces significant challenges in this regard.

The general case for government intervention to manage environmental issues is clear in economic theory. The key points are that generally there is no price paid by polluters to compensate those who are adversely affected, and that individuals and businesses acting according to their own rational interests may pursue activities that create very damaging effects in the aggregate, but which appear small at the individual level. 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.

In the context of ERDF, the aim of Priority Axis 3 and the theme of increasing eco-efficiency that is incorporated across all the three main Priority Axes, is to intervene to actively encourage a more sustainable approach by business in London, through supporting more green businesses, promoting more efficient and greener business practices, and addressing the barriers that inhibit progress towards this.

Issues for London

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. . An illustration of the challenge facing London is highlighted in *A resource flow and ecological footprint analysis of Greater London*²⁷. This report estimated that the ecological footprint per London resident was 6.63 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. This illustrates how resource intensive London is at present and the importance of embracing sustainable production and consumption in London.

As noted above, the Stern Review has illustrated the magnitude of market failure raised by the phenomenon of climate change. However, the issue of the environment also encompasses concerns, such as green spaces and waste management. Furthermore, in,

²⁷ Best Foot Forward, City Limits – a resource flow and ecological footprint analysis of Greater London, September 2002 (see: <http://www.citylimitslondon.com>)

spatial terms many of the boroughs with poor environmental performance are also those with underperforming business and with high deprivation.

Investment under Priority Axis 3 is focussed on environmental improvement that will boost the potential for jobs and growth of SMEs based in regeneration areas by attracting business investment, particularly by businesses working in this sector. The wider theme of eco-efficiency is also incorporated under Priority Axes 1 and 2, which are not spatially targeted and will therefore potentially benefit SMEs irrespective of their location. The concentration of some of London's most deprived areas on the edge of central London out along the River Thames floodplain (which is also the area within which much of London's waste processing occurs) makes them especially vulnerable to any adverse environmental shocks and in particular to the effects of climate change albeit the latest assessment is that current flood defences should be adequate for at least the next century. These issues are characterised in this section by the need to improve environmental efficiency.

In addition to these issues, there are a group of issues that relate to the physical environment of London's Areas of Regeneration and Opportunity. These areas are focussed in east London, and are often very run down reflecting the massive reductions in activity from the decline of manufacturing and docks related business, which were prominent in these areas. A further consequence of previous manufacturing activity is that substantial areas of land are polluted, rendering it unusable without costly cleaning work. Such areas also tend to suffer high levels of crime and vandalism. These issues are grouped together in this section under the heading 'Quality of urban space'.

The challenges of environmental efficiency and quality of urban space are related, in particular in that they are at their most intense in the same areas of London. Their cumulative impact can deter the investment by business that is the key to addressing these problems and bringing greater prosperity to the local area and stimulating such investment, and Priority Axis 3 is focussed on addressing these issues.

2.7.1 Energy use

The total electricity consumption for London in 2000 was 31,000 GWh (excluding electricity used for transport). Of this, 932 GWh was renewable grid electricity and 205 GWh was sourced from renewable energy sources, such as electricity from landfill gas and anaerobic digestion²⁸. Households comprise 45% of the city's total energy consumption.

If the trend in growth in renewable energy schemes continues (2.5 per cent, year-on-year), then 321 GWh of London's other energy demand will be met by renewable schemes in 2020 (City Limits, 2002)²⁹. However, this is well below the targets that the Mayor has set for the amount of electricity and heat energy (in GWh) to be provided for London by renewable, decentralised energy (DE) systems, which are much more efficient than centralised energy production. These targets require that by 2025 at least 50% of London's electricity and 30% of its heat demand be met through DE technologies. Energy efficiency is critical in reducing the capital's carbon footprint, and more efficient use of energy is at least as important for London's sustainable energy strategy as the development of renewable sources. The London Green Fund's energy efficiency and social housing urban development funds will provide loan funding in respect of these activities.

²⁸ City Limits. A Resource Flow and Ecological Footprint Analysis of Greater London. Best Foot Forward Ltd, September 2002.

²⁹ Ibid

Given London's projected growth, it is necessary for both businesses and households to adopt a dual strategy of reducing energy consumption on the one hand and of sourcing it from renewable DE systems on the other. However for small businesses the costs associated with installing the necessary technology or acquiring information about how to switch to DE systems can prevent them from investing in renewable energy sources.

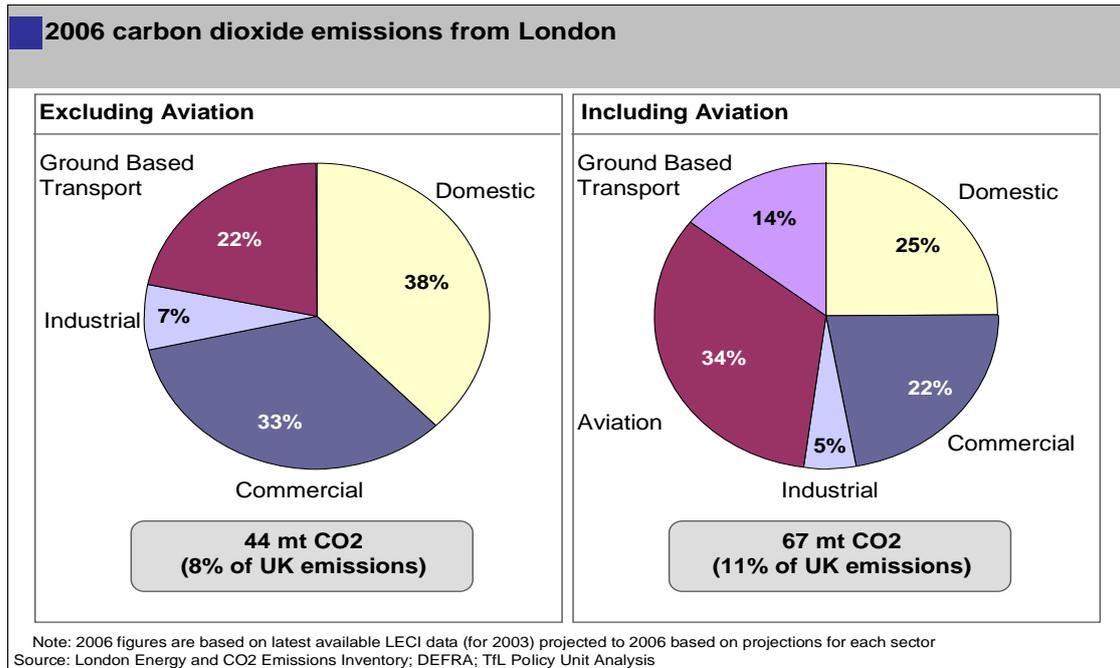
This is where intervention through ERDF could make a difference, and is one strand of the rationale for the eco-efficiency activities that support all three main Priority Axes. Additionally under Priority Axis 3, support will be provided for projects such as installation of CHP units and incorporation of exemplar environmental specification into new workspaces within target areas, which will promote sustainable energy use.

2.7.2 CO₂ and air quality

In 2006 London produced nearly 67 million tonnes of CO₂, representing 11 per cent of the UK's emissions. London's aviation sector (emissions associated with the Heathrow and City airports) accounts for 34 per cent of London's emissions. Excluding aviation, London's emissions are 44 million tonnes of CO₂, representing 8 per cent of total UK emissions.

Since 1990, London's overall emissions have increased from 54.9 million tonnes per year to 66.7 million tonnes. This has been driven by a 126 per cent increase in aviation emissions (from 9.9 million tonnes per annum to 22.4 million in 2006), a 6 per cent increase in the domestic sector and a 17 per cent increase in the commercial sectors.

Figure 14. 2006 carbon dioxide emissions from London



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. The only sector set to decline without intervention is the industrial sector. Aviation is the biggest contributor to emissions growth with a 56 per cent projected increase.

In terms of other indices of air quality the general trend since 1995 has been for improvement, excepting ozone, the levels of which have been rising progressively, though there are short-term fluctuations in the levels of these pollutants.

2.7.3 London’s CO₂ reduction targets

London has taken a lead in its commitment to climate change. As part of his support of a ‘contraction and convergence’ strategy, 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. In order to achieve this, an annual reduction in emissions of 4% will be needed.

Tackling energy wastage through poor insulation and sourcing from more efficient production methods such as decentralised combined heat and power are the most direct and immediate contributor towards achieving these targets. Eco-efficiency and the target investment under Priority Axis 3 is aimed at focusing on those areas where Regeneration and Opportunity Areas overlap, which will help direct resources to where there is both the greatest potential for additional jobs and the largest potential benefit to deprived local communities. Furthermore Priority Axis 3 will demonstration activities within these areas that will also help catalyse greater implementation of eco-efficiency measures by businesses more widely across London.

2.7.4 Waste

In London 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. Municipal waste is made up of about 75% household waste so whilst this programme may support some activity related to the non-residential part of municipal waste the majority of the activity supported will be related to equity funding for management of non-municipal waste through the London Green Fund's Waste Urban Development Fund.

2.7.5 Water consumption

Estimates of London's water consumption for 2002/03 suggest that on average each individual consumes 161 litres of water a day. This is the highest of all regions, with the second highest-ranking region being the Southeast with a level of 159 litres a day.³⁰

In terms of total water consumption by region, London's level of water consumption ranks as the second highest overall. Given that London is one of the driest capital cities in the world, with available water resources per head of population similar to that of Israel, the need to reduce water consumption is particularly pressing. The Environment Agency has calculated that the deficit in water supply compared to demand is between 200 and 300 million litres per day in a dry year.

There is evidence of related market failures, as illustrated in a recent study for Thames Water, which showed that customers surveyed massively underestimated their average water use as 68 litres per day rather than the correct average of 163 litres per day. The underestimation of usage links to the fact water usage is seen as being free. ERDF intervention to address these issues is proposed to be through promoting greater efficiency in water usage across all the three main Priority Axes, with site-specific activities under Priority Axis 3 providing a tangible implementation of some of the wider activities under Priority Axes 1 and 2.

2.7.6 Quality of Urban Space

A key challenge facing deprived areas in London is the frequently low quality of their urban space. This discourages businesses from locating in these areas, depriving them of much needed private investment, which is necessary to upgrade the physical environment.

There are several factors that determine the quality of an area's urban environment. Environmental issues, such as poor waste management and lack of green spaces, are key contributory factors. Other factors include social issues, such as the high prevalence of crime, which also deter private investment and heighten the perception of urban degeneration. Crime is often higher where the quality of urban space is low. Under these circumstances private business investment is unlikely and public sector investment is critical to kick-starting physical regeneration. The specific contribution of ERDF under Priority Axis 3 will be to support the development of ecologically friendly spaces and high quality workspaces, to help address these issues.

2.7.7 SWOT analysis

³⁰ Office of Water (OFWAT)

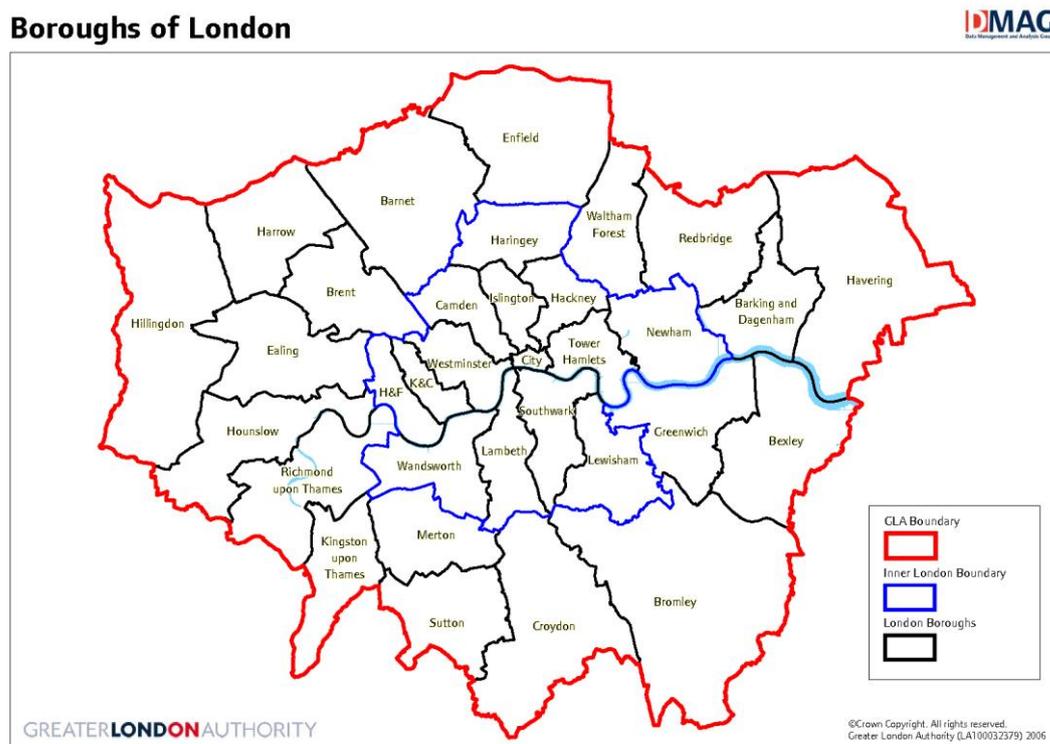
- **Strengths:** There is a growing market and increasing consciousness among Londoners and London businesses about the environment.
- **Weaknesses:** The poor performance of London regarding waste and water in particular, and relative to the required reductions in CO2 and energy. The existing incentive structure does not impose costs or penalties on over-generation of waste, or over-use of water and energy. London's ecological footprint is 3 times greater than it should be if it is to operate within environmental limits
- **Opportunities:** Growing awareness of the negative impacts of climate change and the growth of the environmental goods and service market. The impressive and continuing performance of innovation in the environmental sector further complements this move towards a greener and more sustainable economy.
- **Threats:** increasing future vulnerability to the impacts of climate change. This is a particular issue given the planned development with the River Thames floodplain. Population and jobs growth will exert increasing pressure on the city's resources.

2.8 Socio-economic analysis update 2012

This section constitutes an addendum to the baseline socio-economic data in London described in the 2007-drafted chapter above. It updates key information relating mainly to the economic downturn and its impact on the overall programme performance. Data which is still relevant in 2012 has been retained. The aim of this addendum is to highlight the key strengths and weaknesses of the London economy and to renew the evidence base for the Priority Axes, and the indicative activities that fall within them.

2.8.1 Summary of London: strengths and challenges

Figure 1 Map of London showing borough boundaries



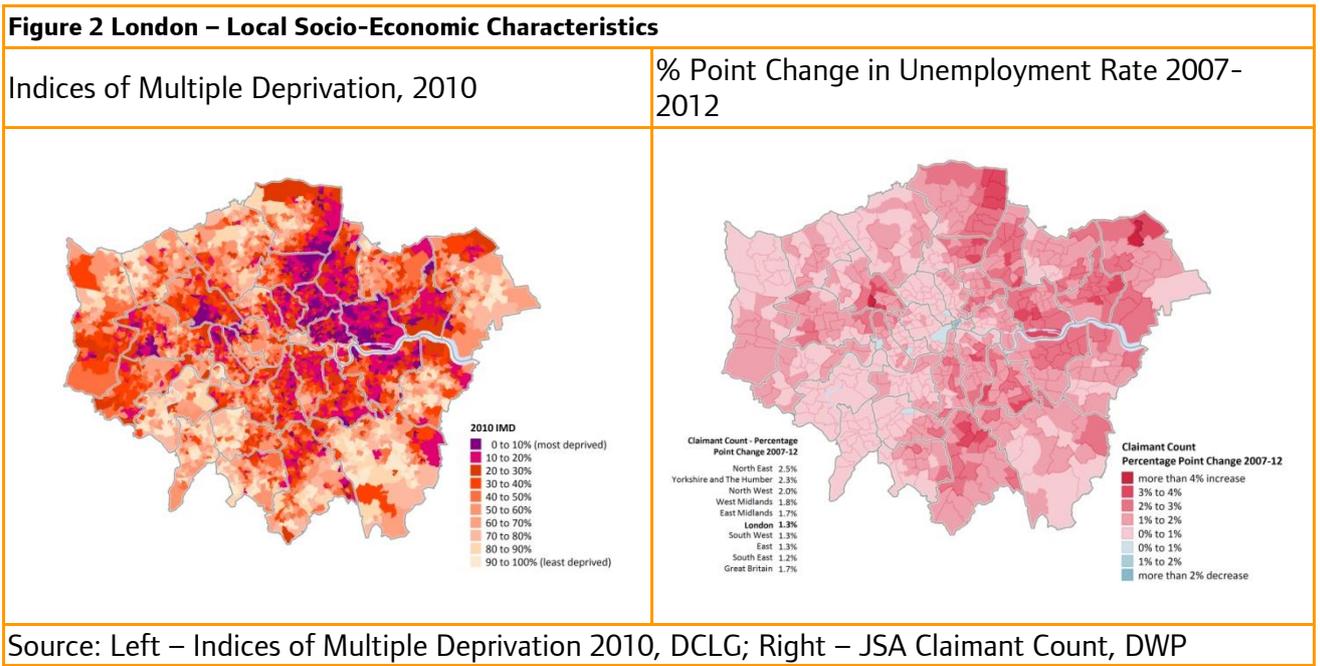
London is a world city, and a leader in financial services. The health of London's economy is vitally important for the rest of the UK, not only because of the financial resources and skilled people that it attracts, but also because of London's significant net monetary contribution to the national exchequer and its role in driving growth across other regional economies.

London is a region of diverse socio-economic characteristics. London's high overall prosperity masks dramatic inequalities within the city as the region contains some of the most deprived localities found nationally. Although London has a significantly higher overall per capita output than other parts of the country, it also has the second lowest employment rate of all the English regions and linked to this, no less than 40 per cent of London's children are living in poverty, 12% above the national average³¹.

³¹ DWP (2008) Households Below Average Income (HBAI) Statistics: After Housing Costs

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. However, there are areas where performance has weakened, including the total quantum of workforce jobs in London and unemployment amongst the resident labour market – indicators likely to relate directly to the economic downturn.

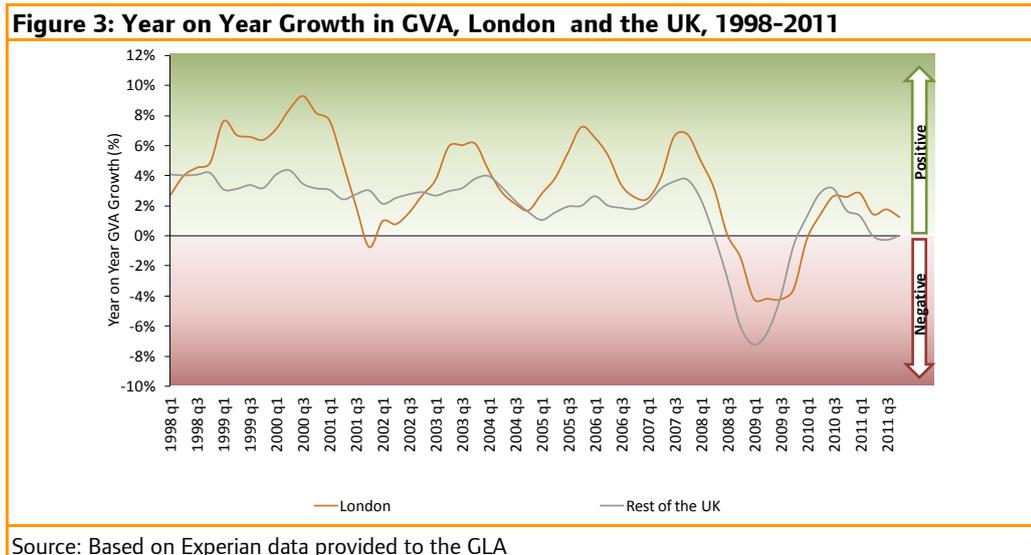
The diverse socio-economic geography of London is highlighted in Figure...., which illustrates that in addition to relatively affluent areas, the region contains significant concentrations of severe relative multiple deprivation. Indeed, of the 10% most deprived local authorities nationally, a third are in London. Figure.....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.



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. In August 2012 the Bank of England 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.

As highlighted by the measures of economic performance in Figure 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 from. The recovery has been slow but current figures 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.



Under these circumstances investment in London is essential both to reduce these stark inequalities and to help ensure the future competitiveness of London's economy. This will benefit Londoners, the UK and the EU. In order to maintain London's competitive position and to ensure a decent standard of living for all its population, it is vitally important that Londoners are able to compete for jobs in the city's dynamic and competitive labour market. ERDF's contribution to London's development needs will be to address the issues surrounding business investment and growth for SMEs and in particular to help address barriers to SMEs led by women, and by black, Asian and minority ethnic and disabled people.

The remainder of this section provides a socio-economic analysis of the following areas, which are critical to promoting successful economic regeneration in London:

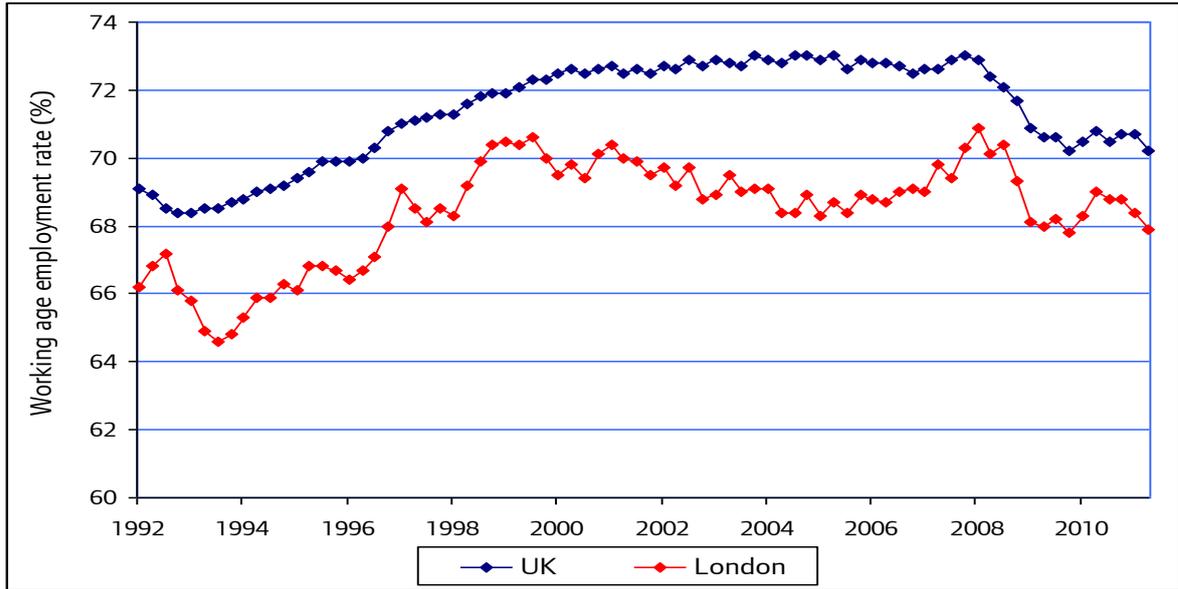
- Employment and Deprivation
- Competition
- Enterprise
- Innovation
- Skills
- Environmental profile and quality of urban space

2.8.2 Employment & Deprivation

2.8.2.1 Trends in employment

London's employment levels remain below the national average. Fig.4 shows that London's employment rate fell by 0.6% to 67.4% in the quarter to January 2012 compared to the UK employment rate of 70.3%. The gap between UK and London employment rates has risen to 2.9%.

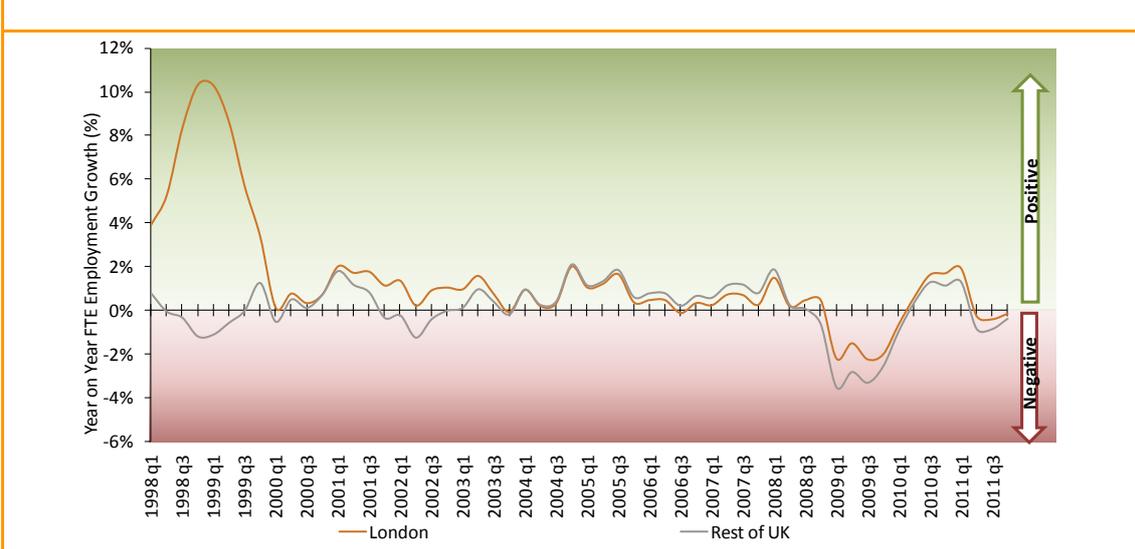
Figure 4 Working Age Employment Rate, London and the UK, 1992 – 2011



Source: Labour Force Survey, ONS.

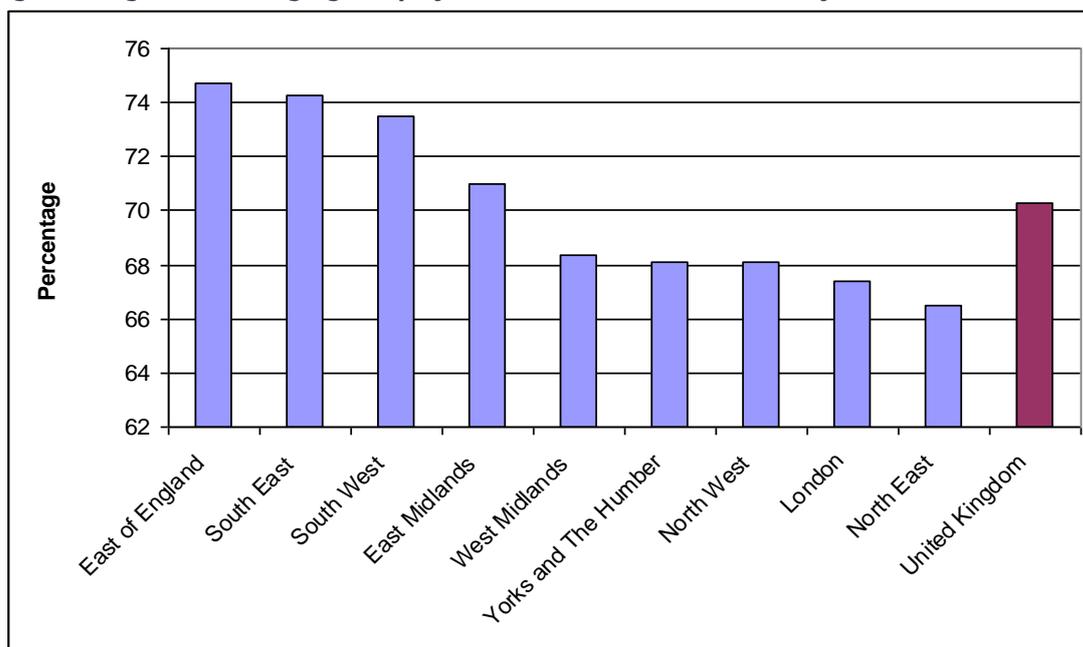
Historic data shows that during the 1980s, London’s employment rate was higher than the UK average. This situation was reversed in the 1990s, and ever since London has had a persistently lower employment rate than other English regions. Indeed, Figure 3 shows that since 1999, the gap between the employment rate in London and that in the rest of England has been increasing.

Figure 5: Year on Year FTE Employment Change, London and the UK, 1998-2011



London currently has the second lowest employment rate of the nine English regions. Figure 5 gives a regional comparison of employment rates and shows that the gap in employment rates between London and the UK stands at 2.9 percentage points; the gap between London and the South East is 6.9 percentage points.

Figure 6 Regional Working Age Employment Rates, November – January 2012



Source: Labour Force Survey, ONS.

Employment rates vary considerably by borough. The highest rate in 2010 was in Sutton (76.3%), followed by Richmond upon Thames, Lambeth and Wandsworth. The lowest rate was in Newham (55.3%), followed by Tower Hamlets and Westminster.³²

2.8.2.2 Worklessness and deprivation

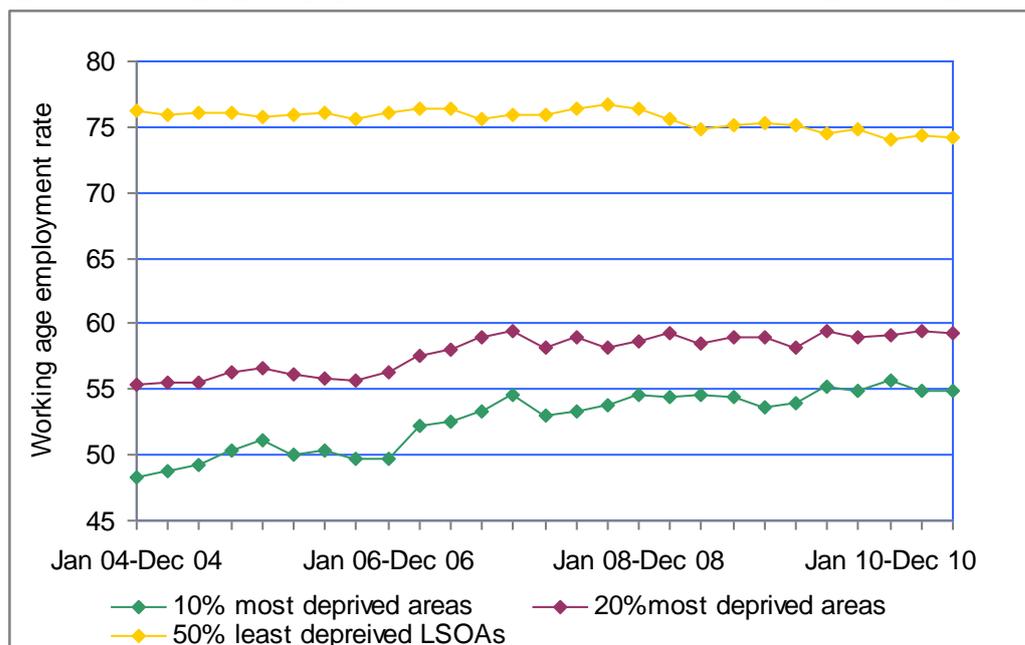
The persistence of high rates of worklessness not only acts as a drag on London's long-term competitiveness and growth, but also increases the challenge of bridging the growing inequalities gap within the city.

Using Annual Population Survey data matched to Indices of Multiple Deprivation 2010 data (IMD2010), employment rates within areas in London that are amongst the most deprived Lower Super Output Areas (LSOAs)³³ in England are shown in the following chart.

³² City of London excluded from the sample due to an insignificant sample size. Source: Annual Population Survey (Jan-Dec 2010).

³³ There are 32,482 Lower Super Output Areas in England, of which 4,765 are in London.

Figure 7: Working Age Employment Rates in London's most disadvantaged boroughs



Source: Annual Population Survey, ONS. IMD2010 (CLG, 2011).

The data shows evidence of increasing employment rates within areas which are in the 10% and 20% most deprived LSOAs in England, however the margin between the employment rates of the 10% most deprived LSOAs and London as a whole currently stands at 13.2 percentage points and 19.3 percentage points to areas in London that are amongst the 50% least deprived LSOAs in England. Overall, the chart shows that there has been an improvement in employment in the most deprived areas over the last six years.

2.8.2.3 Explaining London's high level of worklessness

There are several characteristics of London that contribute to its high unemployment rate. London has a younger population than the rest of the country, and of this working age population a higher proportion are full-time students. The proportion of the population from black, Asian and minority ethnic communities is also higher and London's labour market is known to be particularly competitive, in part because of the relatively high inflows of commuters and migrant labour. However, after taking these factors into account there is still an unexplained element to London's high worklessness rate.

The most important of the structural characteristics identified above for the ERDF programme is the high worklessness rate for BAME groups. Around 75% of the projected growth in the labour force between 2006 and 2026 will be from the BAME population.³⁴ Under-utilisation of this pool of potential workers is not just economically wasteful but it will increase London's inequality gap yet further.

2.8.2.4 Equalities Profile

There are further structural disparities between the employment rates of various groups of Londoners compared with their counterparts across England as a whole; in each case Londoners fare worse. An assessment of employment rates in London highlights the

³⁴ Source: DMAG Briefing 2006/22 interim ethnic group population projections London ERDF Operational Programme 2007-13 (updated December 2013)

relatively low employment rates for women, black, Asian and minority ethnic and disabled people:

Across England, the employment rate of working age women is significantly below that of working age men. However, in London this difference is greater than elsewhere. In 2011 The rate for men was 0.1% above the UK average but for women was 4.4% below and 8.5% below that of the neighbouring South East region. London has a higher proportion of ethnic minority groups, some of which have particularly low female employment rates.

The working age employment rate for women in London stood at 61.5% between October and December 2011, 6.0 percentage points below the rate for all London. Data shows that the gap between the employment rate for women and the employment rate for all Londoners has remained largely constant between 2004 and 2010. The employment rate for women with dependent children stood at 56.1% in 2010.

The employment rate for disabled people was 46.6% in 2010, up from 44.7% in the year to September 2009. This is significantly lower than the employment rate of non-disabled people at 72.6%; a gap of 26 percentage points. The available data shows only slight narrowing between this employment rate and that for London as a whole since the late 1990s. The employment rates of both groups are higher for the UK at 48.4% and 76.4% respectively.

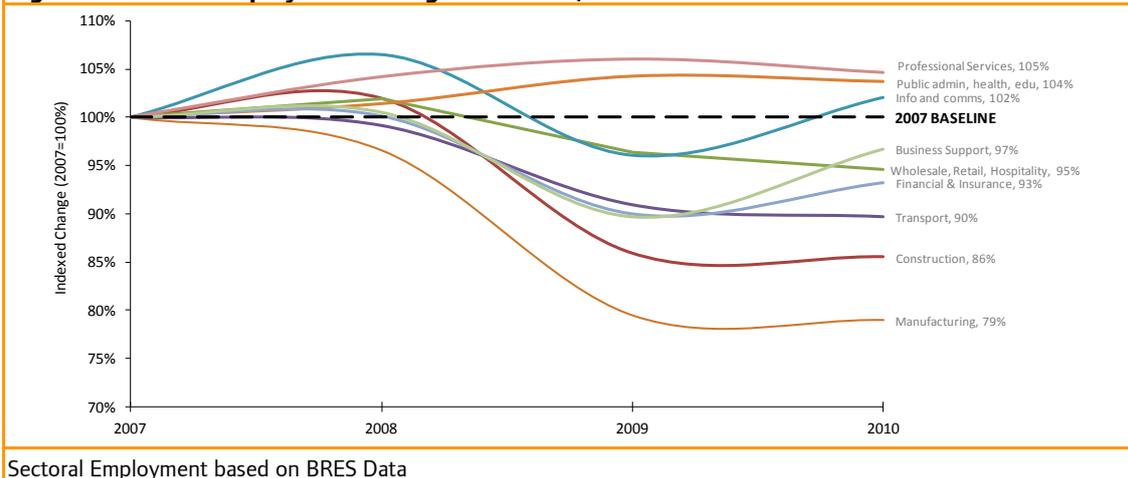
The gap in the working age employment rates for all BAME ethnic groups and all white ethnic groups was 13.2 percentage points in 2010. The employment rate gap has shown an improvement in the past few years compared with the higher levels at the start of the decade at around 19 percentage points. The overall employment rate for BAME groups in London was 59.7% compared with 72.9% for the white ethnic groups. This is the same for the UK as a whole. In the period between 2004 and 2010, there has been marginal convergence between BAME groups and white ethnic group employment rates.

2.8.2.5 The nature of jobs in London

Due to the changing industrial structure of London, and in particular its increasing dependence on the services industry, the nature of jobs in London is constantly changing.

The graphs below illustrate the trend of a continuing decrease in jobs in manufacturing and utilities, and the increasing importance of services, particularly business services. These trends reinforce the conclusion that London's comparative advantage lies in the strength of its financial and business sectors (F&B) and that London is becoming increasingly specialised in these services.

Figure 8 Sectoral Employment Change in London, 2007-2010



2.8.2.6 Implications for Equality

Almost all the growth in full-time employment in London since the early 90's has been for those who possess a university degree or above. Skilled manual and clerical jobs have been declining since 1992, and the growth in lower paid occupations has primarily been in part-time service jobs.³⁵

The polarising effect of these structural changes has been heightened by the fact that earnings growth in lower paid jobs - done predominantly by women and ethnic minorities- was significantly less than in the skilled service sector. For men, the percentage point shortfall in earnings growth between 1991 and 2001 was 17 percentage points, and for women it was 19 percentage points.³⁶

2.8.2.7 SWOT analysis

- **Strengths:** London is home to a number of dynamic and growing sectors, and in particular has a thriving base of financial and business services.
- **Weaknesses:** the low employment rate compared to the other regions of the UK, as well as considerably worse labour market opportunities for women, black, Asian and minority ethnic groups, lone mothers and disabled people.
- **Opportunities:** The projected growth in London's population and economy could provide important opportunities for many of London's currently workless, if they are assisted with the right skills and support. The 2012 Olympic Games provided a focus for such opportunities.
- **Threats:** With the changing demographic structure of London, there is a danger that the employment gap between London and the rest of the country may increase, unless action is taken to increase the skills of the resident labour force and to support London's workless in finding employment.

2.8.3 Competition

London's competitiveness within the modern globalised economy is important not just to London itself but also to the UK as a whole. Competition is desirable as it drives

³⁵ GLA (2002) *London Divided- Income inequality and poverty in the capital: summary*

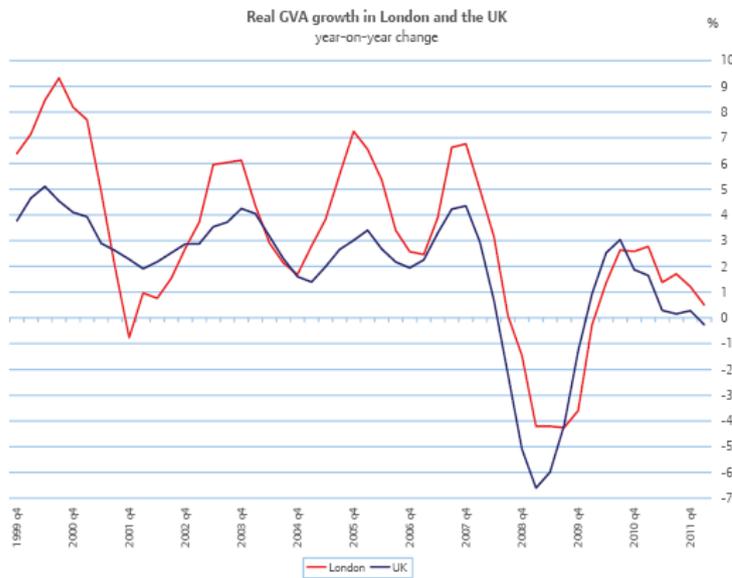
³⁶ Ibid.

businesses to become more innovative and efficient. However, there may be barriers that prevent certain businesses from being able to compete to their full potential. These include issues of access to finance and to information that can have a debilitating effect on start-ups and small businesses or limit their opportunities to grow.

A sub-section of London’s businesses are unable to fully seize global market opportunities and compete in important growing markets, not only domestically but also abroad. For instance in majority black-owned businesses just 1.2% of sales went to overseas markets. The same figure for Asian-owned businesses was 11.3%, for mixed-origin ownership it was 4.9% and for white-owned businesses it was 14.6%.³⁷ Whilst there will be a number of reasons for these differences, they suggest that there is value in providing targeted support to SMEs that are currently not fully exploiting global market opportunities. There may also be opportunities to build on the strong links between fast growing emerging markets and London’s communities originating from the relevant countries.

London’s annual growth in output decreased to 0.5% in Q1 2012 from 1.2% in Q4 2011. Annual output growth in the UK decreased to -0.3% in Q1 2012 from 0.3% in Q4 2011. In Q1 2012 London’s annual growth rate was faster than in the UK as a whole³⁸. GLA Economics forecasts that Gross Value Added (GVA) growth in London for 2011 will be 1.4%; 2.0% for 2012 and 2.4% for 2013³⁹.

Figure 9. GVA growth in London and UK



Source: Experian Economics

2.8.3.1 National comparison

There is no single clear indicator against which to measure the extent of competitiveness in one region as compared to another. The 2010 edition of the UK Competitiveness Index (UKCI), which was first introduced and published in 2000, represents a benchmarking of the competitiveness of the UK’s regions and localities. The top three regions, London,

³⁷ LABS 2005

³⁸ GLA Economics, London’s Economy Today, Issue 120, August 2012.

http://www.london.gov.uk/sites/default/files/londons_economy_today_no120_230812.pdf

³⁹ GLA Economics, “London’s Economic Outlook”, Autumn 2011.

the South East and the East of England, remained the same as in 2008, although London was no longer as far above the UK average. This may reflect the particularly strong influence of the recession on standards of living in the capital.

The fall of London from the top of the UK Competitiveness Index could be explained by recession. Given the specialisation of the regional economy in financial services the recession affected London's economic output and its overall competitiveness. However, it may also recover more quickly and return to its dominant position in due course⁴⁰.

Figure 10

Rank	Region	2010	2008	Rank 2008	Change in Index score 2008 - 2010	Change in Rank 2008 - 2010
1	South East	110.5	109.7	2	0.8	1
2	London	109.6	112.5	1	-2.8	-1
3	East of England	108.9	105.6	3	3.3	0
4	North West	93.8	94.5	6	-0.7	2
5	East Midlands	93.5	97.7	4	-4.2	-1
6	South West	91.8	95.0	5	-3.2	-1
7	West Midlands	90.3	94.4	7	-4.0	0
8	Scotland	89.4	94.3	8	-4.8	0
9	Northern Ireland	89.0	88.8	10	0.2	1
10	Yorkshire and the Humber	87.3	89.6	9	-2.3	-1
11	North East	86.5	83.1	12	3.4	1
12	Wales	83.9	86.8	11	-2.8	-1

2.8.3.2 International comparisons

There are a number of surveys that compare global financial cities. The Global Financial Centres Report 10 (March 2011) found that London retained its position as the leading global financial centre, but Hong Kong has continued to grow in prominence, such that it has joined London and New York as the leading global financial centres; however the relationships between the three centres are believed to be mutually supportive. Risks to London cited in the report relate to potential reforms to the banking industry and the tax environment.

The "European Cities Monitor" report from Cushman and Wakefield in 2011 found that London maintained its position as the most attractive city in Europe to locate a business. London remained the leading European city in terms of easy access to markets and availability of qualified staff. London was also ranked as the leading city in terms of internal and external transport links, telecommunications and languages spoken.⁴¹

However outside the Finance and Business services sectors it is not clear that London's businesses have the same internationally competitive edge, in particular for small and micro-enterprises, and the low export rates for some SMEs referred to above reinforce this concern.

2.8.3.3 Linkage between competitiveness, entrepreneurship and innovation

Some of the competitive constraints encountered by certain sections of London's SMEs highlight the close linkage between competition, entrepreneurship and innovation.

⁴⁰ UK Competitiveness Index 2010, Robert Huggins and Piers Thompson, Centre for International Competitiveness, Cardiff School of Management, University of Wales Institute, Cardiff <http://www.cforic.org/downloads.php>

⁴¹ Cushman and Wakefield, 'European Cities Monitor', (2011)

There are two broad sets of issues that act to limit the competitiveness of such enterprises. The first relates to problems inhibiting innovation resulting in low levels and low quality of innovation. Potentially innovative businesses can be constrained by factors such as a lack of understanding of the importance of competitiveness and investment, and a lack of market intelligence. These are the types of concerns addressed by Priority Axis 1 activities.

A second set of problems relates to the inability of businesses to identify commercial opportunities for the realisation of their innovation, due to barriers in accessing finance and appropriate business support. This is illustrated by the weak engagement of certain small businesses in international trade referred to above. Such issues are addressed by the activities that fall under Priority Axis 2.

2.8.3.4 SWOT analysis

- **Strengths:** London is seen as a top world city by corporate investors, having a very favourable investment climate and a relatively friendly regulatory framework.
- **Weaknesses:** Areas of poverty and under-investment limit the ability of certain businesses to become more productive, as a lack of access to critical knowledge, finance and business support can be big constraints.
- **Opportunities:** Overcoming the barriers that limit the performance of some firms could enable them to compete in London's very dynamic market and to take advantage of the city's strengths as a global city, including the strong representation among its residents of communities from countries with fast growing emerging economies.
- **Threats:** London's overall economic potential is reduced due to some businesses missing commercial opportunities as a result of market failures. This impacts most on deprived communities, aggravating inequalities in London.

2.8.4 Enterprise

This section outlines some of the key challenges faced by enterprises in London and set out evidence on the sort of policy interventions that are appropriate in order to improve the competitiveness of London's economy.

2.8.4.1 The nature of enterprise in London

London's industrial structure is different to that of the other regions of the UK. Firms offering professional business services, particularly in banking, finance and insurance, are much more dominant in London than in the rest of the UK. This is a reflection of marked changes in London's industrial structure over the last 30 years.

2.8.4.2 The nature of London's business base

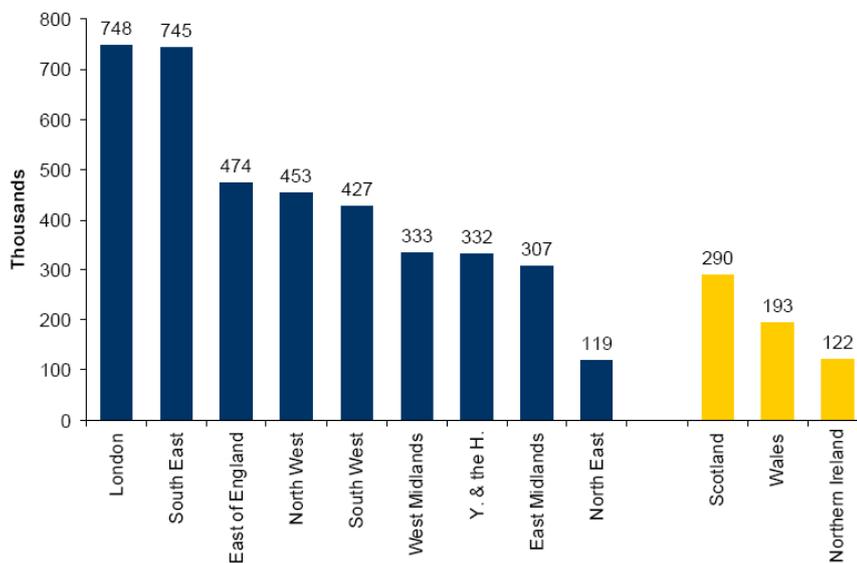
At the start of 2011 there were 748,000 private enterprises in London, more enterprises than any other region or country in the UK⁴². 16.6 per cent of businesses were in

⁴² Department for Business Innovation and Skills, Business Population Estimates for the UK and Regions 2011, 12 October 2011, <http://www.bis.gov.uk/analysis/statistics/business-population-estimates>

Professional, scientific and technical activities sector, the highest proportion of all regions. Almost a third (31.2 per cent) of businesses in London were in Real Estate, Renting and Business Activities, the highest proportion of all regions and countries, but less than one per cent of enterprises in London are in Agriculture, Fishing and Forestry⁴³.

Figure 11

Number of private sector enterprises, by UK region and country (excluding England), start of 2011.



As for all other regions in the UK, no more than 0.1 per cent of London enterprises are large (250 or more employees), and at least 99.2 per cent of enterprises are small (0 to 49 employees).

However, out of all the UK regions and countries, London had the lowest share of private sector employment in SMEs (50.0 per cent). For Northern Ireland, Wales and the South West this figure exceeded 70 per cent.

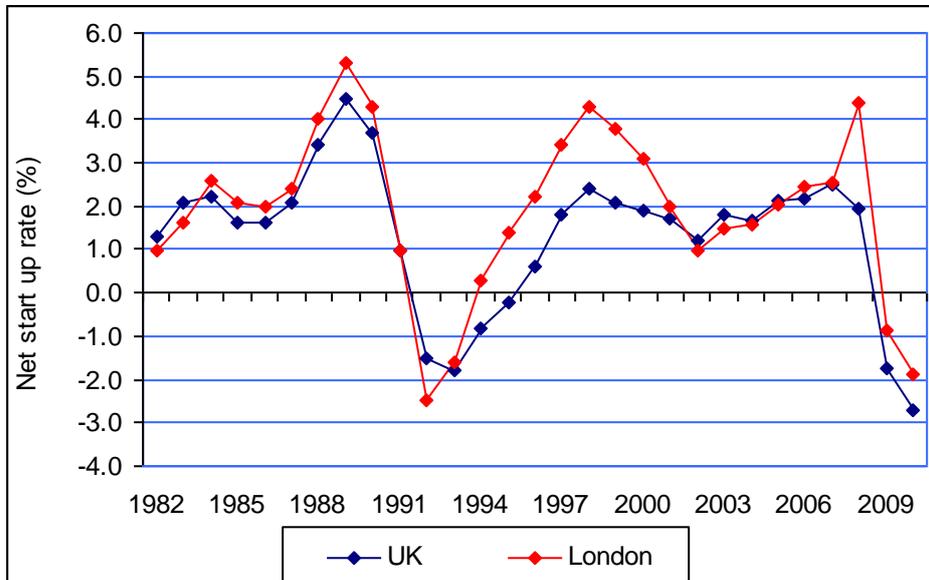
A further important characteristic of enterprise in London is the high turnover in the number of businesses in the region. Compared to other regions of the UK there are a high number of business start-ups in London each year. However, this is matched by a high number of business closures. New businesses are important because they can be significant drivers of productivity growth and innovation in the economy. They are also important generators of employment.

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

⁴³ Department for Business Innovation and Skills, 'Small and Medium-sized Enterprise (SME) Statistics for the UK and Regions 2009', http://webarchive.nationalarchives.gov.uk/+http://stats.bis.gov.uk/ed/sme/Stats_Press_release_2009.pdf

fallen (at a rate faster than average nationally)⁴⁴. In 2010 the net business start-up rate for London stood at -1.9% compared to -0.9% in 2009. For the UK as a whole the net business start-up rate fell from -1.7% in 2009 to -2.7% in 2010. Over the most recent economic cycle London's annual net business start up rate has averaged 1.5% compared to 1.1% for the UK as a whole⁴⁵.

Figure 12. Annual net business start up rate



Source: Department for Business, Enterprise and Regulatory Reform (dataset up to 2003); Business Demography, ONS, 2004 data onwards.

London registers below average business survival rates than the rest of the UK, with the lowest 5 year business survival rate of all UK regions, with 39.7%⁴⁶. The highest 5 year survival rate was in Northern Ireland at 54.0%, while the UK rate was 44.4%. However, this indicator is a reflection of the highly competitive business climate in the capital.

As noted earlier, this high level of turnover contributes to the competitiveness of the region, and so the high closure rate is not, of itself, necessarily a problem. The case for intervention is that certain SMEs are disadvantaged. 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. Many of the trends outlined above 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%⁴⁷.

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 13, lending to businesses declined significantly at the start of the economic downturn and recovery continues to be slow.

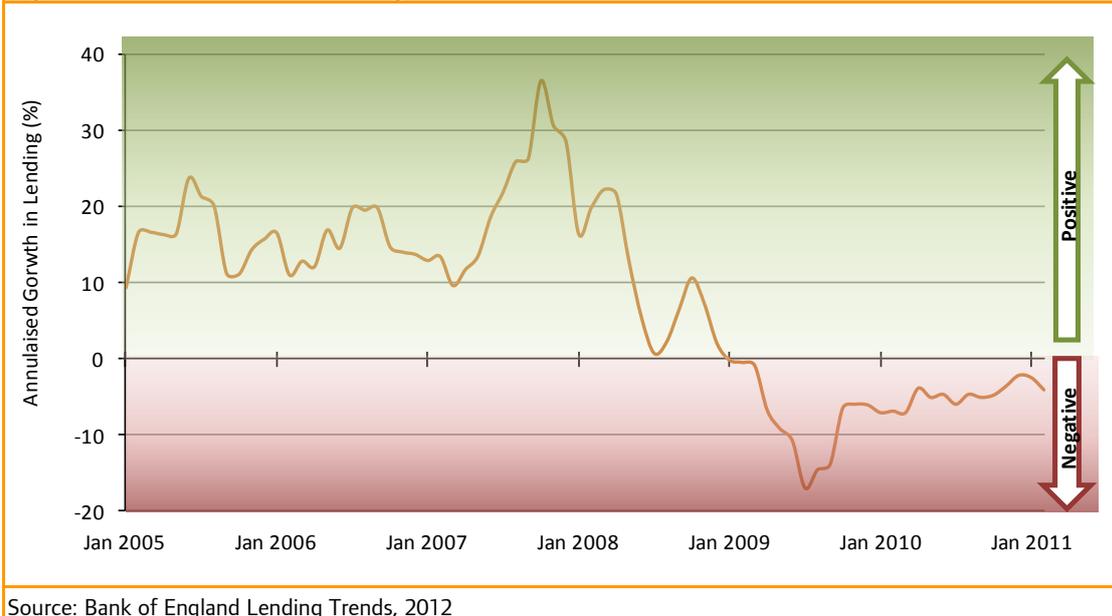
⁴⁴ ONS Business Demography 2010; released November 2011

⁴⁵ ONS Business Demography 2010; released November 2011

⁴⁶ idem

⁴⁷ HM Revenue and Customs (www.uktradeinfo.com)

Figure: 13. Net Growth in Lending to UK Businesses



2.8.4.3 Overcoming barriers to the growth of enterprise in London

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.

The issues illustrated above for entrepreneurship in London can lead to the following summary of barriers that can be addressed through ERDF.

- acquiring appropriate management skills and capabilities to develop and implement commercial strategies in a rapidly changing business environment, due to lack of information or appropriate resources to access such skills and capabilities.
- acquiring best practice business knowledge, to help ensure that the wide gap between the practice and knowledge of the most successful businesses and other businesses can be effectively bridged, for example by business to business networks that provide opportunities for collaboration and knowledge exchange.
- acquiring information about getting access to new business opportunities in fast changing markets both within London and internationally.
- accessing business finance.

In addressing these barriers, resources need to be focussed where they are most needed, given that such barriers are much greater for some communities in London than others.

2.8.4.4 SWOT analysis

- **Strengths:** the high level of business start ups in London reflect the city's vibrant entrepreneurial culture, although this is not equally spread through all London's communities.

- **Weaknesses:** There are a number of barriers to entrepreneurship that prevent many London SMEs, particularly those owned by women, black, Asian and minority ethnic and

disabled people, from reaching their full competitive potential. This reduces London's overall productivity and means that some communities in London have reduced economic opportunities.

- **Opportunities:** Projected growth in London's population and income, and London's good links with key fast growing emerging economies and globally, can provide major opportunities for enterprising businesses.
- **Threats:** The relatively low level of skills and entrepreneurship and high levels of crime and vandalism in some of London's communities could impact on local business growth and productivity and mean that these communities, and businesses within them, continue to lack economic empowerment.

2.8.5 Innovation

2.8.5.1 Measuring innovation in London

Innovation is a key driver of productivity and growth as identified, for example, by the Treasury (the other key drivers they identify are investment, skills, competition and entrepreneurship). However, measuring innovation is difficult, as its nature depends on the structure of an economy. National government's focus on R&D spend as a key indicator for innovation is not entirely appropriate for London, which has a low score on R&D, although overall it is the most productive region of the UK.

There is an apparent paradox between London's high levels of productivity and high knowledge intensive activity and its apparent underperformance against a range of innovation indicators. A key reason for this is the service oriented structure of London's economy - a sector in which innovation type activities are acknowledged to be difficult to measure- and the dominance of the finance and business sectors, which do less formal R&D than sectors such as manufacturing or pharmaceuticals. In other regions this effect is less pronounced with the service sector accounting for 80% of all jobs in the rest of the UK, while it accounts for 91% in London, of which a high percentage is finance and business.⁴⁸

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.

Since the development of the London 2007-2013 Operational Programme, the region's performance against innovation indicators has been mixed. 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.

The proportion of knowledge intensive jobs available in London has increased, and at a

⁴⁸ GLA Economics 'Innovation in London' 2007

faster rate than average nationally⁴⁹. London performs above the national average (32%) and strongest all of the 9 English regions. On the other hand, the proportion of innovation active firms has decreased between 2009-11 by 8% (compared to no change nationally). London performs below the UK average (28%) and ranks 7th out of 9 English regions in terms of innovation active firms⁵⁰.

2.8.5.2 The need for investment in innovation

The UK Innovation Survey 2009 highlights some of the key barriers to business innovation. These barriers can be internal obstacles that the enterprise encounters while carrying out innovation activities as well as external factors preventing innovation. The survey asked all businesses about a range of constraining factors and their effect on their ability to innovate. Table 8 shows the total proportion of businesses that said a barrier was in some way a constraint to innovation (ranked high, medium or low).

Figure 14. Constraints on innovation (percentage of all firms rating “high”, “medium” or “low”)

	2005	2007	2009
Excessive perceived economic risks	53	39	55
Cost of finance	53	41	54
Direct innovation cost too high	53	40	54
Availability of finance	49	38	52
Uncertain demand for innovative goods or services	51	40	52
Market dominated by established businesses	51	39	52
Lack of qualified personnel	54	42	50
Lack of info on technology	50	38	48
Lack of info on markets	49	37	48
UK Gov regulations	47	35	43
EU regulations	44	32	40

The justification for intervention to promote or increase the levels of innovation amongst London’s businesses is based on economic theory: market forces will lead to under-investment in innovation, since private firms cannot capture the full benefits of their innovation. As shown in the table above, cost factors (including excessive risk, high costs, cost and availability of finance) and market factors (including uncertain demand and market domination) tend to be considered by many businesses to be a constant constraint. However, there may be evidence of the onset of recession having an effect on decisions to innovate. Compared to 2007, the 2009 survey showed a marked increase in the share of businesses with the objective to innovation to reduce unit costs and increase value added.

2.8.5.3 Research, development and innovation

Despite the issues raised earlier regarding the relevance of R&D as a measure of productivity in London, it is still useful to review the available data on this, whilst bearing in mind its limitations (particular as an indicator of innovation in the service sector). Between 2006 -10 the proportion of business expenditure on R&D has declined (at a time when there was an increase nationally). London businesses currently contributes around 6% of all UK business expenditure on R&D – a decrease from 2006 and lower

⁴⁹ High Tech and Knowledge Employment – BRES

⁵⁰ Community Innovation Survey (BIS)

than many of the English regions⁵¹. The general explanation of the regional pattern is that of differences in industrial composition (including, therefore, business size) across the regions and the effect of the industry specific product and process life-cycles. One example is London where overall innovation activity was a relatively low 56 per cent of firms yet a comparatively large share of London businesses recorded forms of managerial and marketing innovations (29 per cent). London also had the largest share of ongoing or incomplete innovation projects over the period at seven per cent⁵².

Whilst there has been an increase in the rate of Patent Applications, the rate of increase has been slower than nationally. London now performs below the London average after below average growth in recent years and it ranks 5th out of 9 regions (previously 4th)⁵³.

Regional data in the UK Innovation Survey 2009 shows that firms in London are less likely to be involved in product innovation than the UK as a whole, but more likely to be involved in process innovation. This is a change from the 2004 – 2006 period, where businesses in London were less likely to be involved in both these forms of innovation.

2.8.5.4 Knowledge Exchange and Knowledge Transfer

The transmission of knowledge is a critical part of innovation, and the facilitation of knowledge exchange and transfer is an important factor driving some of the most successful economic clusters (including the finance and business services cluster in central London). This is because access to relevant information is costly, especially for small SMEs which are not plugged into the knowledge networks that facilitate the exchange of this information. Indeed, spatially London's black, Asian and minority ethnic owned SMEs tend not to be located within the city's finance and business services growth hubs, where the cost of commercial office space effectively prices them out. Instead many of London's smaller businesses are located outside of the high growth areas making it more difficult for them to access information that could be potentially valuable to them. Priority Axis 1 aims to tackle some of these issues, through support for knowledge exchange networks that seek to connect target SMEs with enterprising businesses elsewhere and with higher and further education institutions.

2.8.5.5 Innovation and the environmental sector

In terms of facilitating innovation and promoting greater progress in addressing the huge environmental challenges we face, the environmental sector is a crucial one. In Green Alchemy: Turning Green to Gold, the London Development Agency (LDA) has analysed the sector and its role in London's economy. The sector is defined broadly in this report to include parts of the business sector; finance sector; voluntary/not-for-profit sector; public sector (national/international); and the education sector.

The report estimates that 140,000 workers are employed in the environment sector, and identifies the following key features of the sector in London:

- much of the business is business-to-business trade
- large and medium-size businesses lead the sector
- it is driven by increasingly stringent environmental regulations
- there is limited involvement of black, Asian and minority ethnic communities.

⁵¹ Expenditure on R&D –BIS

⁵² UK Innovation Survey 2009, BIS <http://www.bis.gov.uk/assets/biscore/science/docs/u/10-p107a-uk-innovation-survey-2009-science-and-innovation-analysis.pdf>

⁵³ Intellectual Property Office

Innovation in the environmental sector feeds through into the economy at two levels. Firstly it can help other sectors to improve their eco-efficiency performance, and secondly it is a source of growth in its own right. Indeed to some extent both factors are mutually reinforcing: as 'green' products and services become better established and their costs fall, the pressure on businesses and public bodies to improve their eco-efficiency performance increases, further expanding the market. It is also clear that this market is growing rapidly globally, not just within the UK, and so there is a link with proposed programmes to strengthen global market intelligence and access for London SMEs.

For London's firms engaging in R&D, the environmental sector has the highest spend on R&D per employee. Furthermore with 87% of environmental businesses undertaking external R&D collaboration, the sector has the highest value of this indicator for innovative collaboration.⁵⁴ However only 17.5% of environmental SMEs undertook R&D in the 12 months prior to the survey; this is well below the average for all sectors, which is 31.5%. It is also surprising given the perception of the dynamic nature of the market and the demand for more ethically and environmentally friendly products and services.

Research for the London Plan⁵⁵ also finds that there are specific market failures in the London environmental business sector, reflecting a lack of information and shortages of key skills

This data suggests that the specific nature of R&D in this sector may imply large but concentrated spend, and that there may be access to finance and information issues limiting many smaller environmental businesses from undertaking R&D.

An enterprising and innovative environmental sector is crucial to meeting the rapid growth in demand for environmentally friendly products and services from a growing market on the demand side. Similarly on the supply side dynamism is important in underpinning R&D and relevant collaboration with London's strong higher education base. At the highest level, the Stern report recognises that climate change represents a market failure of monumental proportions, and it is therefore appropriate for the public sector to intervene in this area.

More specific market failures in this area that may need to be addressed in London include barriers limiting the transfer of knowledge between environmental SMEs and London's higher education institutions, and the lack of sufficiently clear information on the benefits of environmental action which may mean potential business purchasers of environmental technology, for example to reduce carbon emissions may not do so. Addressing eco-efficiency and carbon emission reduction is woven through all the three main Priority Axes.

2.8.5.6 SWOT analysis

- **Strengths:** London's high overall GVA per worker demonstrates high overall productivity and innovation. Furthermore the high density of further and higher education institutions is one of the greatest assets of the city.
- **Weaknesses:** The evidence suggests certain types of business are less successful in innovating and highlights particular challenges for some black, Asian and minority ethnic

⁵⁴ LABS 2005, pp148-150.

⁵⁵ Arup, Evidence Base: Climate Change in the Further Alterations to the London Plan', April 2007
London ERDF Operational Programme 2007-13 (updated December 2013)

owned enterprises, and for some smaller companies involved in environmental technology.

- **Opportunities:** the successful exploitation of the R&D carried out by higher education institutions in London through effective knowledge transfer networks.
- **Threats:** Market failures may inhibit sufficiently rapid development of environmental technologies and implementation to meet the scale of the challenge posed by climate change.

2.8.6 Skills

2.8.6.1 Measuring skills in London

A recent report issued by GLA Economics provides an update on the level and quality of skilled workforce in London⁵⁶. London's working-age population has, on average, higher-level qualifications than the UK population. This is particularly true in terms of the share of the population that holds degree-level qualifications. In 2010, 42 per cent of working-age London population had a degree-level qualification, compared with just 32 per cent in the UK as a whole. London also had a lower percentage of people with no qualifications (9 per cent) compared with the UK (11 per cent). At the opposite end of the qualifications scale, the share of London's working-age population who had no qualifications was 9 per cent, London's 9 per cent represent nearly half a million people with no qualifications.

When looking at employment numbers of skilled labour, the absolute number employed in London with at least NVQ level 4 qualifications (degree level and above) has risen from 1.35 million in 2004 to 1.89 million in 2010, though the employment rate of skilled labour has fallen by two percentage points between 2007 and 2010, to 82.8%. In 2010, the proportion of working age people qualified to NVQ Level 4 and above was 42% in London compared to 31% in the UK. In both London and the UK, the proportion of highly qualified people has risen steadily since 2004. The disparity between these proportions for London and the UK has risen steadily over the last five years from six to eleven percentage points⁵⁷.

In London, a higher percentage of working-age men than women have at least NVQ level 4 qualifications, 43 and 42 per cent respectively⁵⁸. This pattern differs from the UK as a whole, where a higher proportion of women have a graduate-level qualification, 33 per cent compared with 31 per cent for men. This is partly explained by London's higher proportion of ethnic groups other than white, in which, on average, a lower proportion of women have degrees. When looking only at the white group the same proportion of men and women in London have NVQ Level 4+ qualifications – 45 per cent.

International migration into London has led to a high level of ethnic diversity amongst the London population. In terms of qualification levels, 'White' residents, on average, tend to have slightly higher qualification levels than those from Black, Asian and Minority Ethnic (BAME) groups. The percentage of people with degrees range from 56 per cent

⁵⁶ Focus on London 2012 Skills: Degrees of Qualification, Slawek Kozdras, GLA Intelligence Unit
<http://www.london.gov.uk/sites/default/files/focus-on-london-2012-skills.pdf>

⁵⁷ Annual Population Survey, 2004 – 2010. Employment Rate: number of working age NVQ4+ in employment divided by total number of working age people with NVQ4+; (in London).

⁵⁸ Ibid

among London residents of Chinese origin to 32 per cent for the 'other' group. At the other end of the qualifications scale, the mixed ethnicity group has the lowest proportion of people with no qualifications (7 per cent) compared with 15 per cent for the 'other' group.

The more deprived boroughs, as measured by the IMD, tend to have a below average proportion of their population with high skills. Skills deficits and high unemployment are intrinsically linked, as alluded to in section 2.2. The relatively low skills base of many black, Asian and minority ethnic groups prevents them from accessing high quality employment opportunities, which are the main route out of poverty. Increasing the skills of London's deprived communities is a key part of any development strategy. Indeed, this is where complementarity between ESF and ERDF is critical.

While ERDF seeks to bolster the entrepreneurial and innovative potential of businesses owned by these minority groups and by women, ESF tackles the wider skills related issues that have been discussed. Therefore in order for activities under ERDF to have an impact in spurring innovation and growth in disadvantaged areas, parallel progress under ESF is essential. While ERDF funds will seek to make high quality jobs accessible to these target groups, they will only successfully acquire these jobs if they have the right skills. An integrated approach across the two funds, and indeed other related programmes, should mean that intervention harnesses the full productive potential that exists in disadvantaged areas, both in terms of its labour force and its businesses.

Projected growth in population can be a huge asset if London can ensure that most of its population are highly skilled. A virtuous circle could be achieved from the combination of innovative high growth businesses and a highly skilled resident workforce.

2.8.6.2 SWOT analysis

- **Strengths:** the relatively high overall skill level of the workforce, which is a key resource for innovation and increasing business productivity.
- **Weaknesses:** the large proportion of London residents with no or low skills, which is particularly marked amongst black, Asian and minority ethnic communities and concentrated in London's regeneration areas.
- **Opportunities:** growth in London's population, including from in-migration presents an opportunity for businesses to harness the potential of a youthful and diverse labour market. To maximise this will require sufficient investment in skills, and in particular those skills most needed by businesses in their workforce. The new London Skills and Employment Strategy will help ensure an integrated approach to this issue.
- **Threats:** not all Londoners will be able to effectively compete for the additional jobs created by growth due to skills gaps and a competitive labour market.

2.8.7 Environment

Despite the economic downturn, London has improved overall environmental performance in recent years. London has performed well against high level environmental measures but 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. 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.

2.8.7.1 Role of intervention

The environment and its links to the economy represent key challenges to any society. As the following analysis shows, London faces significant challenges in this regard.

The general case for government intervention to manage environmental issues is clear in economic theory. The key points are that generally there is no price paid by polluters to compensate those who are adversely affected, and that individuals and businesses acting according to their own rational interests may pursue activities that create very damaging effects in the aggregate, but which appear small at the individual level. 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.

In the context of ERDF, the aim of Priority Axis 3 and the theme of increasing eco-efficiency that is incorporated across all the three main Priority Axes, is to intervene to actively encourage a more sustainable approach by business in London, through supporting more green businesses, promoting more efficient and greener business practices, and addressing the barriers that inhibit progress towards this.

2.8.7.2 Issues for London

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. An illustration of the challenge facing London is highlighted by the Environment Agency which states on its website that London's ecological footprint is 4.54 global hectares (gha) per person (2006). Although London's footprint is lower than the UK average (of 4.64 gha per person), the high consumption of resources means it is just under twice the size of the global average footprint of 2.6 gha per person (Global Footprint Network). When divided equally between the world population, it is 2.5 times bigger than the bio-capacity of the land (1.8 gha per person), which is the area of land available to supply natural resources. The total ecological footprint for London in global hectares is over 34 million. This amounts to an area over 200 times the city itself⁵⁹. This illustrates how resource intensive London is at present and the importance of embracing sustainable production and consumption in London.

As noted above, the Stern Review has illustrated the magnitude of market failure raised by the phenomenon of climate change. However, the issue of the environment also encompasses concerns, such as green spaces and waste management. Furthermore, in spatial terms many of the boroughs with poor environmental performance are also those with underperforming business and with high deprivation.

This supports targeting of investment under Priority Axis 3, which is focused on low/zero carbon environmental infrastructure and environmental improvement that will boost the potential for jobs and growth of SMEs based in key development areas, such as

⁵⁹ <http://www.environment-agency.gov.uk/research/library/publications/115654.aspx>

the regeneration areas, by attracting business investment, particularly by businesses working in this sector. The wider theme of eco-efficiency is also incorporated under Priority Axes 1 and 2, which are not spatially targeted to the same degree and will therefore potentially benefit SMEs irrespective of their location. The concentration of some of London's most deprived areas on the edge of central London out along the River Thames floodplain (which is also the area within which much of London's waste processing occurs) makes them especially vulnerable to any adverse environmental shocks and in particular to the effects of climate change albeit the latest assessment is that current flood defences should be adequate for at least the next century. These issues are characterised in this section by the need to improve environmental efficiency.

In addition to these issues, there are a group of issues that relate to the physical environment of London's Areas of Regeneration and Opportunity. These areas are focussed in east London, and are often very run down reflecting the massive reductions in activity from the decline of manufacturing and docks related business, which were prominent in these areas. A further consequence of previous manufacturing activity is that substantial areas of land are polluted, rendering it unusable without costly cleaning work. Such areas also tend to suffer high levels of crime and vandalism. These issues are grouped together in this section under the heading 'Quality of urban space'.

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. Despite a decline in new orders during the recession, London has increased its share of construction orders from 11% to 23% of GB total⁶⁰.

The challenges of environmental efficiency and quality of urban space are related, in particular in that they are at their most intense in the same areas of London. Their cumulative impact can deter the investment by business that is the key to addressing these problems and bringing greater prosperity to the local area and stimulating such investment, and Priority Axis 3 is focussed on addressing these issues.

2.8.7.3 Energy use

Data from the Department of Energy and Climate Change shows that total consumer energy consumption fell by 4.7% in 2009, an near identical decrease to that of the UK as a whole (-4.8 per cent). Total energy has been decreasing in the capital for the past five years.

Figure 15: Total Sub-national Energy Consumption, Gigawatt Hours (GWh), 2005 – 2009

	London	UK
2005	158,000	1,728,000
2006	156,000	1,623,000
2007	152,000	1,626,000
2008	149,000	1,594,000
2009	142,000	1,518,000

Source: Department for Energy and Climate Change, Total sub-national final energy consumption, 2011.

If the trend in growth in renewable energy schemes continues (2.5 per cent, year-on-year), then 321 GWh of London's other energy demand will be met by renewable

⁶⁰ Construction Orders – ONS

schemes in 2020 (City Limits, 2002)⁶¹. However, this is well below the targets that the Mayor has set for the amount of electricity and heat energy (in GWh) to be provided for London by renewable, decentralised energy (DE) systems, which are much more efficient than centralised energy production. These targets require that by 2025 25% of London's energy is delivered through more efficient decentralised energy .

Energy efficiency is critical in reducing the capital's carbon footprint, and more efficient use of energy is at least as important for London's sustainable energy strategy as the development of renewable sources. The London Green Fund's energy efficiency and social housing urban development funds provide loan funding in respect of these activities.

Given London's projected growth, it is necessary for both businesses and households to adopt a dual strategy of reducing energy consumption on the one hand and of sourcing it from renewable DE systems on the other. However for small businesses the costs associated with installing the necessary technology or acquiring information about how to switch to DE systems can prevent them from investing in renewable energy sources.

This is where intervention through ERDF could make a difference, and is one strand of the rationale for the eco-efficiency activities that support all three main Priority Axes. Additionally under Priority Axis 3 support will be provided for projects such as installation of CHP units and incorporation of exemplar environmental specification into new workspaces within target areas, which will promote sustainable energy use.

2.8.7.4 CO₂ and air quality

Average emissions per capita in London are below the national average (7.4 kt co₂), although the gap has narrowed in recent years⁶²

London contributes 9% of national commercial & industrial emissions– increase in proportion since 2005⁶³

London has improved its overall performance in terms of emissions – albeit at a slower rate than average nationally.

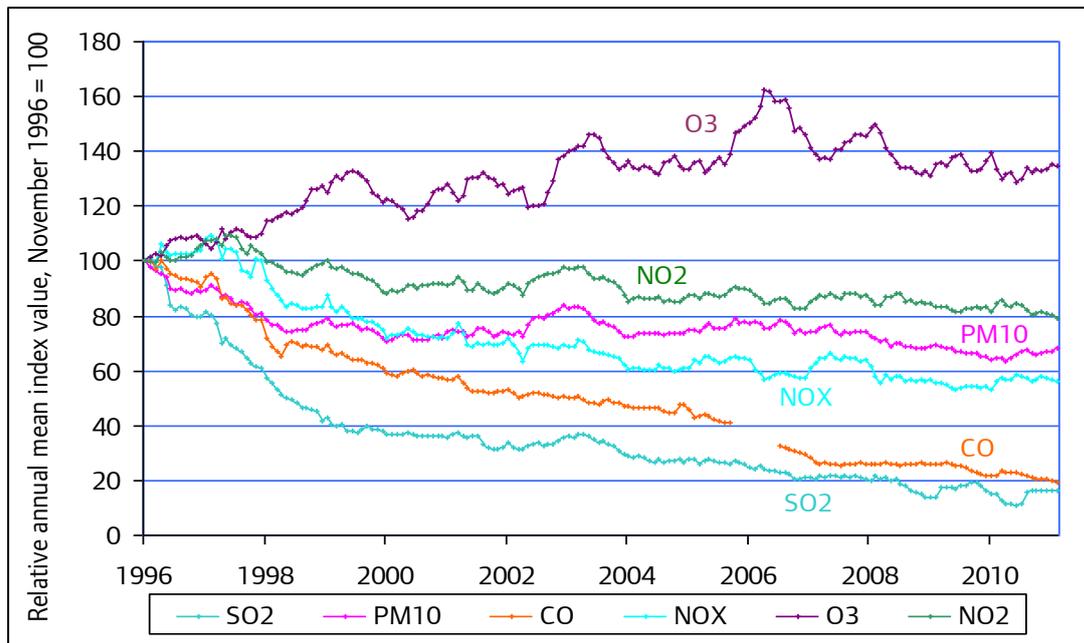
Provisional air quality monitoring data from a number of sites in London to December 2011 show that concentrations of most pollutants have decreased since November 1996, with the exception of ozone (O₃). Ozone has decreased since the peak in early 2007 but remains well above the baseline level in 1996. It should be noted that formation of ozone can take place over several hours or days and may have arisen from emissions many hundreds, or even thousands of kilometres away. For this reason ozone is not considered to be a 'local' pollutant. Sulphur dioxide (SO₂) and carbon monoxide (CO) have seen the most significant reductions during the time period; however all of the pollutants except O₃ are at least 20% down on their 1996 levels. In 2011 there has also been a small up-tick in PM₁₀ concentrations (particles less than 10µm in diameter). This mainly reflects unusual weather patterns with light easterly winds bringing in larger than usual quantities of European pollution.

Figure 16: Air quality relative index value

⁶¹ Ibid

⁶² DECC

⁶³ DECC



Source: King's College London and the London Air Quality Network, (www.londonair.org.uk), (2011)

2.8.7.5 London's CO₂ reduction targets

As highlighted in the EDS, London has taken a lead in its commitment to climate change. As part of his support of a 'contraction and convergence' strategy, 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. In order to achieve this, an annual reduction in emissions of 4% is needed. To achieve this, London's global market share in low carbon finance and carbon trading, should be maximised. London Innovas research⁶⁴ suggests that London has the largest share of the UK Low Carbon market, and that the value of this market has been increasing. London has a 19% share of UK low carbon market – the largest share of any UK region. The sector has 9,200 companies & 160,000 employees

Tackling energy wastage through poor insulation and sourcing from more efficient production methods such as decentralised combined heat and power are the most direct and immediate contributor towards achieving CO₂ reduction targets. Eco-efficiency and the targeted investment under Priority Axis 3 is also aimed, but not exclusively, at those areas where Regeneration and Opportunity Areas overlap, which will help direct resources to where there is both the greatest potential for additional jobs and the largest potential benefit to deprived local communities. Furthermore Priority Axis 3 will demonstration activities within these areas that will also help catalyse greater implementation of eco-efficiency measures by businesses more widely across London.

2.8.7.6 Waste

Due to increased recycling levels, the amount of waste produced by London's households fell by 0.2% to 3,029 thousand tonnes in 2010/11, compared with a 2.8% fall in 2009/10. Waste produced by all households in England rose by 2.7% in 2010/11. London's household recycling rate increased to 32.5% in 2010/11 from 25.5% in

⁶⁴ Low Carbon and Environmental Goods and Services <http://www.bis.gov.uk/policies/business-sectors/green-economy/market-intelligence/market-data>

2007/2008. For the previous five years, the gap between London and England as a whole has fluctuated between eight and nine percentage points.⁶⁵

Figure 17: Household Waste Recycling Rates

Year	London	England
2006/07	23%	31%
2007/08	26%	35%
2008/09	29%	38%
2009/10	32%	40%
2010/11	33%	41%

In London 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. Municipal waste is made up of about 75% household waste so whilst this programme may support some activity related to the non-residential part of municipal waste the majority of the activity supported will be related to equity funding for management of non-municipal waste through the London Green Fund's Waste Urban Development Fund.

2.8.7.7 Water consumption

Estimates of London's water consumption for 2008/09 suggest that on average each individual consumes 161 litres of water a day⁶⁶. This is the highest of all regions, with the second highest-ranking region being the Southeast with a level of 159 litres a day.⁶⁷

In terms of total water consumption by region, London's level of water consumption ranks as the second highest overall. Given that London is one of the driest capital cities in the world, with available water resources per head of population similar to that of Israel, the need to reduce water consumption is particularly pressing. The Environment Agency has calculated that the deficit in water supply compared to demand is between 200 and 300 million litres per day in a dry year.

There is evidence of related market failures, as illustrated in a recent study for Thames Water, which showed that customers surveyed massively underestimated their average water use as 68 litres per day rather than the correct average of 163 litres per day. The underestimation of usage links to the fact water usage is seen as being free. ERDF intervention to address these issues is proposed to be through promoting greater efficiency in water usage across all the three main Priority Axes, with site-specific activities under Priority Axis 3 providing a tangible implementation of some of the wider activities under Priority Axes 1 and 2.

2.8.7.8 Quality of Urban Space

A key challenge facing deprived areas in London is the frequently low quality of their urban space. This discourages businesses from locating in these areas, depriving them of much needed private investment, which is necessary to upgrade the physical environment.

There are several factors that determine the quality of an area's urban environment. Environmental issues, such as poor waste management and lack of green spaces, are key

⁶⁵ Household Waste Recycling Rates, DEFRA, (November 2011).

⁶⁶ London State of the Environment Report 2010, Environment Agency

⁶⁷ Office of Water (OFWAT)

contributory factors. Other factors include social issues, such as the high prevalence of crime, which also deter private investment and heighten the perception of urban degeneration. Crime is often higher where the quality of urban space is low. Under these circumstances private business investment is unlikely and public sector investment is critical to kick-starting physical regeneration. The specific contribution of ERDF under Priority Axis 3 will be to support the development of ecologically friendly spaces and high quality workspaces, to help address these issues.

3. Strategy

3.1 Overall Vision of the London Programme

The London ERDF Operational Programme responds to the relevant policy priorities, the sources for which were summarised in Chapter 1, and is informed by the socio economic analyses summarised in Chapter 2, and by experience in implementing the current European programmes and other related areas of work. In particular, it seeks to support the implementation of two of the investment themes of the Mayor's Economic Development Strategy for London:

1. investment in places and infrastructure; to accommodate growth and ensure sustainable development of communities and enterprises in London;
2. investment in enterprise, to enable growth and competitiveness.

The London programme for 2007-2013 will not work in isolation but will complement other London strategies and build on the successes of the 2000-2006 ERDF programme within the context of the EU Lisbon Agenda for jobs and growth.

The Mayor's EDS has identified a number of core principles to guide investment in London:

- Ensuring strategic fit, a coherent approach, which aligns resources to help achieve the key goals for London
- addressing a market failure by striking at the cause
- achieving a social objective
- pursuing investments that offer value for money
- ensuring longer-term sustainable change

The vision for the London Operational Programme is to promote sustainable, environmentally efficient growth in London, 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 Economic challenges and context

As identified in the socio economic analysis, the overall performance of London is strong when compared to other regions. However, as has been noted the city's performance and wealth are not equally distributed geographically or amongst its inhabitants. An acute reflection of this is that London has some of the most intense local deprivation in England.

There is therefore a need to address local disparities within London, to ensure that all people and all areas of London are able to fully participate and contribute to the competitiveness of the economy.

Given the potential of London's economy and the integrated framework and drive provided by the Mayor's overarching strategies for London, there is enormous scope for the Operational Programme to complement a suite of activities and policies that are already in place. It is important that the activities supported under this Operational Programme are properly coordinated with the wide range of other relevant economic development programmes, which are being taken forward in London.

As London's economy continues to increase its growth and competitiveness through use of its knowledge base, and building on the city's unique diversity, there is a need to make sure that persistent local economic disadvantage is reduced through:

- Increasing opportunities for SMEs in terms of innovation, eco-efficiency, access to finance and access to new markets
- Improving labour market opportunities for deprived communities within the region by attracting more business development into relevant Opportunity Areas, which have been identified in the London Plan as the areas with the greatest potential for additional jobs and population, with a particular focus on businesses working in the eco-efficiency sector.
- Environmental improvements as part of the regeneration and development of employment sites and premises, which will act as a catalyst for economic growth supporting social inclusion.

The socio economic analysis identifies the large differences in economic performance across London's boroughs. Certain districts of the capital are amongst the wealthiest in Europe, with businesses at the vanguard of the knowledge based economy. Other districts, especially those concentrated to the east in the Thames Gateway are home to some of the poorest communities in the UK, and have degraded local environments that are a real barrier to business investment.

Targeted investment improving the physical and environmental capacity of underperforming locations in London will help ensure that they become places where businesses will want to invest, generating employment opportunity, with a particular focus on businesses in the environmental sector, many of which will also have been supported through Priority Axes 1 and 2. It will also encourage improvements in businesses' environmental performance to meet the huge environmental challenges facing London, for example through demonstration projects.

Those locations where investment will be targeted have been identified as Opportunity Areas, Intensification Areas and Areas for Regeneration within the London Plan. Activities that link Areas of Regeneration, and Areas of Opportunity and Intensification, will be supported by this Programme. These areas in London suffer from:

- A legacy of degraded former industrial environments, particularly in the east of London, acting as a significant barrier for investment.
- Poor local business environments and a strong link between environmental degradation, social and economic deprivation.
- A significant economic, social and environmental challenge presented by the present and future impact of climate change.

At the same time, they offer the greatest opportunity for targeted expenditure to achieve tangible change in local business activity. Most Opportunity Areas are located within areas of Regeneration and therefore improvements will also generate local employment opportunities for communities needing economic advancement. Investments in these areas to promote environmental performance are in line with the EU Lisbon Agenda and will contribute to it by enhancing the attractiveness and viability of previously deprived areas of London as well as by supporting environmental businesses and improvements. This will develop the ability of these areas help attract and stimulate businesses; bringing innovation, entrepreneurship and employment, and leading to more and better jobs.

3.3 Priorities for action

The first two Priority Axes will seek to stimulate the growth of business innovation and entrepreneurship in the SME sector in a way that will capitalise particularly on the leading-edge information technology expertise, knowledge and creativity offered by London's communities, institutions and businesses.

The socio-economic analysis suggests that although London is a leading city for knowledge-based organisations there is insufficient linkage between higher and further education and businesses, particularly SMEs. As a result, some London businesses do not compete in the global economy to their full potential. The themes of developing a culture of innovation, assisting businesses to extract more value from the knowledge base and increasing business peer-to-peer networking will help address barriers to innovation. These themes have synergies with both the Mayor's Strategies for London and the Lisbon Agenda, which acknowledge that to ensure a competitive economy, it is essential to have strong entrepreneurship and innovation.

The socio-economic analysis highlights that London's greatest competitive strength is as a world financial city. When assessed in these terms, it performs extremely well overall against competitiveness indicators, compared both with the other regions of the UK and with its international competitors.

The socio-economic analysis also highlights that London has a very strong cluster of financial and business services particularly in central areas. However, at the same time many SMEs in the capital experience severe barriers, including difficulty in access to investment finance, that prevents them from growing and improving.

There are also large geographical variations within London's strong overall position. Although the data should be interpreted cautiously, gross value added figures for Inner and Outer London⁶⁸ show low performance in Outer London and particularly low figures for outer east London (and if central London was excluded from Inner London in this

⁶⁸ Inner and Outer London are the two NUTS areas within London. NUTS (Nomenclature of Units for Territorial Statistics) is a classification of administrative areas used by Eurostat, the European Commission's Statistical Office, for presenting regional and local statistics.

analysis, Inner London would also perform relatively poorly). Weak business performance is also highly correlated with patterns of residential deprivation in London, as weak local demand is linked to poor environments and high crime levels. Conversely, limited local job opportunities impact on local people, particularly the less skilled and the less mobile.

For Priority Axes 1 and 2, regional policy has a role to play in improving the competitiveness of London by overcoming the barriers to enterprise over and above those which can be dealt with at the national level. Particular ways in which these barriers may be overcome are detailed under the themes for each axis. Overall however, the analysis above suggests that the Operational Programme is best focussed on addressing barriers for particular areas and communities, which lead to economic underperformance.

The third Priority Axis identified for the programme is Sustainable Green Infrastructure. This priority has just one theme: Supporting retrofitting, low/zero carbon environmental infrastructure and physical enhancement. However, it also links with Priority Axes 1 and 2 as businesses, particularly environmental businesses and entrepreneurs that have been supported in Priority Axes 1 and 2 may also benefit from the new market opportunities arising from investment in low/zero carbon environmental infrastructure.

As indicated in the socio-economic analysis, London's performance on environmental issues is not adequate. Environmental development and enhancement is a key priority for the Mayor, and also at national and European level, and the need to address the potential impacts of climate change in London is integrated into every element of the ERDF programme.

Given the large scale of the overall challenge, resources for this element of the programme are being targeted at specific locations and on specific aspects of environmental sustainability to ensure a tangible effect.

In the context of environmental sustainability, there is a general issue of market failure resulting from the fact that when acting according to their own interests, individuals and businesses will not take the full environmental costs of their actions into account. This has been recognised in policy. In London, there is specific evidence suggesting difficulties for some SMEs in investing in R&D in the environmental area, and in implementing improvements in their own environmental performance.

In line with the London Plan, the programme should promote sustainable design and construction methods. This includes the use of sustainable procurement policies, including encouraging the use of recycled and sustainable materials by contractors. Moreover, building projects must consider low-carbon building design, the use of renewable energy, wastewater management and energy and water conservation. There are significant barriers to the take up of innovations and business opportunities in these sectors by SMEs as set out in recent ARUP research for the Greater London Authority.⁶⁹

Promotion of greater equality also needs to be an integral part of assessing both project objectives, and how projects are procured and implemented. In addition, any new development should aim to enhance the biodiversity of London where opportunities arise.

3.4 Strategic Alignment

The EU Lisbon Agenda and Community Strategic Guidelines

⁶⁹ 'Evidence Base: Climate Change in the Further Alterations to the London Plan' April 2007. London ERDF Operational Programme 2007-13 (updated December 2013)

In March 2000, at the Spring European Council held in Lisbon, the European heads of government committed to reforming Europe's labour, capital and economic markets and to making Europe, 'the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social inclusion' by 2010. In March 2005, the European Council re-launched the Lisbon Agenda with a more specific focus on jobs and growth. The outcome of this meeting informed the development of the Community Strategic Guidelines (CSG) for Cohesion Policy in support of Growth and Jobs. The CSG was adopted in October 2006. These guidelines set the framework for ERDF, the European Social Fund (ESF) and the cohesion fund programmes.

In March 2010 the European Commission put forward Europe 2020, a 10 year growth strategy which follows the Lisbon strategy. Formally adopted in June 2011, the EU 2020 aims at "smart, sustainable, inclusive growth" with greater coordination of national and European policy. The strategy is focused on five ambitious goals in the areas of employment, innovation, education, poverty reduction and climate/energy. EU 2020 objectives are fully relevant for the 2007-13 London ERDF programme. However, the programme was developed and approved based on Lisbon agenda principles and CSG therefore progress will be measured against these two main strategic frameworks.

The CSG aim to deliver a more effective EU 2007-13 Regional Policy and to ensure that the key elements of the Lisbon Agenda are implemented at regional level.

The CSG indicates that Structural Funds should target resources on three main priorities:

- enhancing the attractiveness of member states, regions and cities
- encouraging innovation, entrepreneurship and the growth of the knowledge economy
- creating more and better jobs.

The European Commission has specified that at least 75 per cent of the Competitiveness and Employment expenditure of the programme should be allocated to achieve the Lisbon Agenda's objectives.

Alignment with national policies

The EC Regulations require a National Strategic Reference Framework (NSRF) to be produced by the member state, which sets out national strategies for embedding EC cohesion policy in delivery of the Lisbon Agenda, and forms the basis for regions to design their Operational Programme.

In the UK, the Department for Trade and Industry (DTI) published the NSRF on 23 October 2006. The document established the main priorities for spending €9.4 billion of European Structural Funds from 2007 to 2013.

The UK NSRF proposed four priorities for the English ERDF Competitiveness programmes:

- promoting innovation and knowledge transfer
- stimulating enterprise and supporting successful business
- ensuring sustainable development, production and consumption
- building sustainable communities.

In the document, the Government indicated that it expected regions to maximise alignment of policies and funding at regional, sub-regional and local level.

The Government’s strategy for investing Structural Funds in England reflected both the CSG and the then-Government’s regional policy agenda.

At the national level, both the UK NRP and the NSRF set up the strategic framework for the UK to design the ERDF Operational Programmes. Through the National Framework the UK Government established the broad priorities for Structural Funds Programmes for the 2007 to 2013 period which include a strong focus on activities in support of the Lisbon Agenda. To embrace the economic reform of Lisbon, a series of indicators has been developed that cover six broad areas: general economic background, employment, innovation and research, economic reform, social cohesion and environment. The London ERDF programme is aligned to the UK NRP targets, in particular those related to innovation and research, environment, social cohesion and employment. The table below highlights the linkages between the UK Government priorities identified in the NRP, the NSRF and the London ERDF Operational Programme.

Alignment between London ERDF OP and UK Lisbon Strategies			
ERDF Axes	Priority	UK NRP	UK NSRF
Priority Axis 1: Business innovation, Research and Development and eco-efficiency		Promoting innovation to ensure the UK is a world leader in turning scientific research into business innovation, given the growing importance of knowledge-driven industries in the world economy.	P1: Promoting innovation and knowledge
Priority Axis 2: Access to new markets, and access to finance		Building an enterprising and flexible business sector that is the best in the world, where firms can succeed and exploit the opportunities presented by a more open and competitive global economy.	P2: Stimulating enterprise and supporting successful business
Priority Axis 3: Sustainable Green Infrastructure		Increasing innovation, adaptability and efficiency in the use of energy and resources and promoting low-carbon sources of energy, at a time when pressure on global energy and other resources is rising.	P3: Ensuring sustainable development, production and consumption P4: Building sustainable communities:

Alignment with Regional priorities

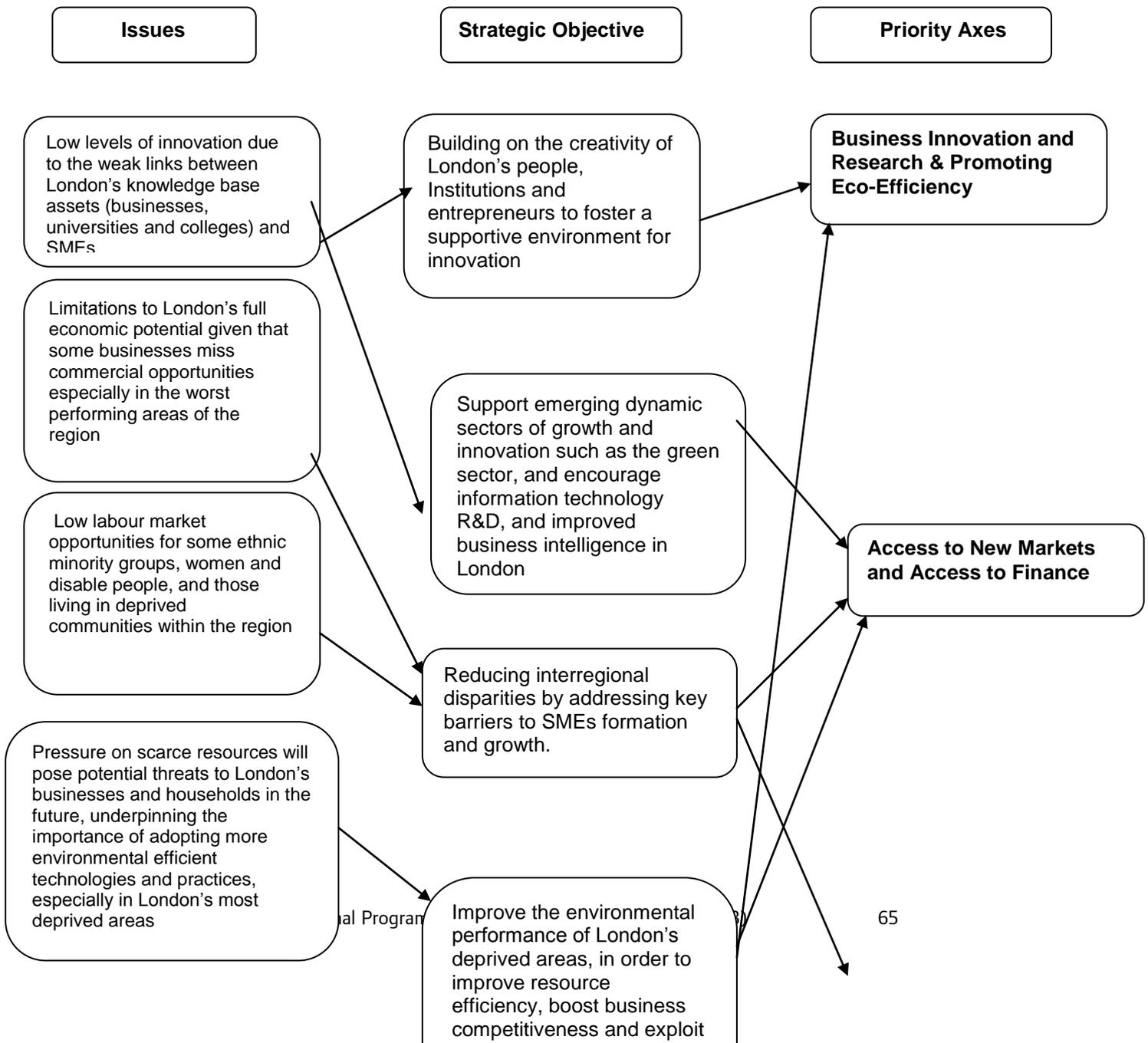
The key regional document for aligning regional strategy to European funds is the Mayor’s Economic Development Strategy (EDS). The EDS’ vision is simply for London to be the best big city in the world by 2031 by expanding opportunities for all its people and enterprises, achieving the highest environmental standards and quality of life, and

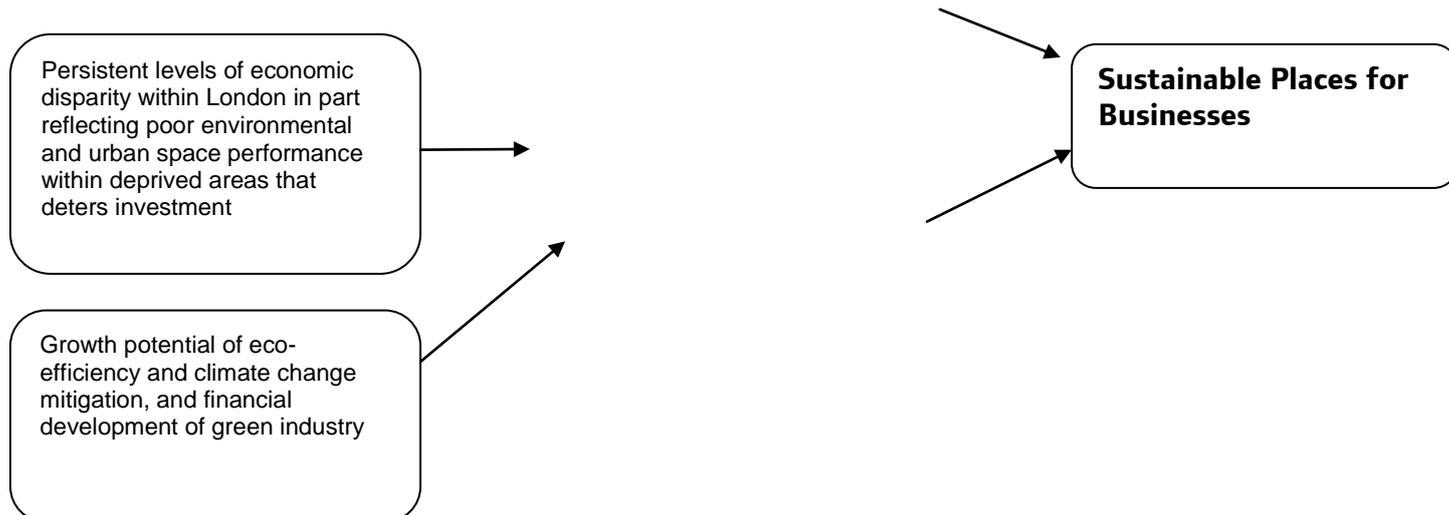
leading the world in its approach to tackling the urban challenges of the 21st century, particularly that of climate change. The strategy is a plan for action for all those involved in London's economy and concerned with its success. It sets out the direction in which the GLA group as a whole will seek to work with others in the public, private and voluntary sectors to 2031.

In addition to the EDS the Mayor has published a statutory spatial development strategy, called the London Plan. The London Plan is the overall strategic plan for London, and it sets out a fully integrated economic, environmental, transport and social framework for the development of the capital to 2031. It forms part of the development plan for Greater London. London boroughs' local plans need to be in general conformity with the London Plan, and its policies guide decisions on planning applications by councils and the Mayor.

Drawing on the Mayor's strategies and the needs of London identified in the socio economic analysis, the following table aims to summarise and illustrate the connections between the objectives of the Lisbon Agenda, national policies and the 2007-2013 Operational Programme priorities.

Summary of the strategic alignment





3.6 Ex –Ante Evaluation, Strategic Environmental Assessment and Equality Impact Assessment

Ex-Ante Evaluation

An external consultant was appointed to undertake the initial appraisal (ex-ante evaluation in EC terminology) of the London ERDF Operational Programme 2007-2013. The ex-ante process is an evaluation of the Operational Programme according to a set of criteria set out by the European Commission, and the report is attached as an annex. The ex-ante process is an interactive and iterative one, and comments on emerging drafts have been provided to the Operational Programme drafting team and have helped to inform the development of this document.

For further details on the ex-ante evaluation please see Annex D to this Operational Programme.

Strategic Environmental Assessment

An external consultant was appointed to undertake the Strategic Environmental Assessment (SEA) of the London ERDF Operational Programme 2007-2013. The SEA Directive 2001/42/EC, is applicable to the London ERDF Operational Programme, and has been implemented to assess the effects of the programme on the environment.

The SEA has been conducted in an interactive and iterative way so that it has made a positive contribution to the integration of environmental considerations during the development of the Operational Programme. The SEA team have provided comments on emerging drafts to the Operational Programme team that have helped to inform the development of the Operational Programme.

For further details on the SEA process and findings please see Annex E to this Operational Programme.

Equality Impact Assessment

An external consultant was appointed to undertake the Equality Impact Assessment of the London ERDF Operational Programme 2007-2013. As the lead agency with

responsibility for preparing the draft ERDF programme, the LDA is supporting the Mayor of London and has an obligation to ensure that London ERDF Operational Programme meets robust quality standards for equalities.

The Equality unit in the Department for Communities and Local Government has issued guidance on this, and recommended that the ERDF Operational Programme should be screened for its relevance and potential impact across the following six equality strands: race, disability, gender, sexual orientation, age and faith. The full Equality Impact Assessment is under Annex A of this Operational Programme

3.7 London's Diversity

The Programme has a strong focus on diversity, both in terms of building on the opportunities London's diversity offers, and in addressing the severe inequalities in economic empowerment between London's communities.

London is the most ethnically diverse city in the UK and one of the most ethnically diverse cities in the world. BAME groups constitute 29% of the London population, compared with about 8% in the UK as a whole; and there are at least 50 non-indigenous communities with populations of 10,000 or more in the capital. There are an estimated 300 languages spoken regularly in London. While this diversity poses challenges for ensuring business support is open and accessible to all, it also creates opportunities for London's enterprises.

Linguistic diversity can be an economic asset contributing to city/region competitiveness by attracting foreign businesses, investors and customers to London. London is home to nearly two million migrants, 29% of the London population, and receives more than 13 million overseas visitors per year, many of whose first language is not English. Additionally, diversity in the workforce can create the conditions for innovation by fostering creativity and bringing together unique sets of experience and perspectives. Diverse communities in London can also help link London's enterprises to fast growing economies elsewhere. Finally, firms which attract and retain a diverse employee base can understand and access offshore markets through these diasporas, and are better equipped to communicate.

In summary, diversity gives businesses the opportunities to:

- move into new markets and source a wider range of customers
- create an inclusive working environment, motivating existing employees and improving productivity
- find better suppliers and new investors
- gain a competitive advantage by providing consistently better services to existing customers
- find and retain skilled and versatile employees
- increase creativity and innovation
- increase penetration of overseas markets in a globalised economy
- win larger public and private sector contracts, which are increasingly taking account of basis of non-financial criteria such as diversity.

3.8 Geographical Coverage

The EU's Community Strategic Guidelines emphasise the importance of a territorial dimension in Structural Funds programmes. In London, the programme will focus on local disparities in economic performance.

In view of the reduced level of ERDF funding compared to the previous (2000-2006) Programme, it will be crucial that projects align their objectives and activities to the strategic priorities of the London Plan and the Economic Development Strategy.

In the London Plan, the Mayor refers to the benefits of co-ordination of sub-regional initiatives; the ERDF programme will ensure that relevant linkages between the sub-regions' specific investment requirements and the Priority Axes are identified and developed where relevant.

The 2000-06 Objective 2 ERDF programme was geographically limited to the areas of 'industrial decline' identified by national Government and the EC: the Lower and Upper Lee Valley, Thames Gateway and a small part of West London - an area covering 850,000 people set within a city with a population of over seven million. Programmes were developed with the assistance of four 'Area Partnerships' based in the Objective 2 area itself.

The geographic boundaries of the 2000-06 and earlier programmes have limited their operational effectiveness from a regional perspective. It is hard to justify to a resident or business on the 'wrong' side of the eligibility boundary, why they are unable to benefit from European funds. There are areas of deprivation and/or industrial decline dotted across London, in areas immediately surrounding the existing Objective 2 area; and often adjacent to the most prosperous areas.

London's compact size in comparison with other EU regions, and comprehensive public transport network, means that people living in most deprived communities can generally – though not always – be expected to access services and businesses across London. So while it remains imperative for ERDF projects to focus on benefiting deprived communities and areas, and/or to clear target beneficiaries from deprived communities and areas, setting rigid boundaries across the board for ERDF assistance in London would not be sensible.

In the London Plan, Opportunity Areas have been identified as having the potential to accommodate large-scale development in London. Areas for Regeneration have been identified as areas where there is substantial deprivation and that have the greatest socio-economic need; while Areas for Intensification are existing town centres with the capacity for further development. Projects funded under Priority Axis 3 can help to drive the sustainable development of these areas and such projects will be actively encouraged.

As a general rule, activity funded through the programme must be located within London. However, very exceptionally, a project that is located outside London may be considered for support provided (a) it is situated in a NUTS III area adjacent to London, (b) all of the output and results will be delivered within London and (c) it meets agreed selection or investment criteria.

Without the limitation of a rigid eligibility map, there is an opportunity to widen awareness of and access to ERDF funds across London's most deprived communities, and for the ERDF programme to work more effectively with the ESF programme (the UK's

largest), which will continue to operate across the whole of London to address worklessness and raise skills.

However, it will be vital to ensure that structural fund programmes maintain strategic impact; rather than being 'pepper-potted' across the city, and this will be ensured through detailed programme design under each Priority Axis. For all axes, as part of the appraisal process, projects applying for European funds will need to demonstrate how they will particularly benefit businesses or residents in London's most deprived communities.

3.9 Lisbon Earmarking

As set out in Article 9 of the EC General Regulation, Programmes under the Competitiveness Objective must contribute a minimum of 75% of the programme's expenditure to activities directly related to the *Integrated Guidelines for Growth and Jobs*. The relevant categories are listed in Annex IV of the General Regulation.

The London programme proposes that approximately 86% of the funding is directed towards the Lisbon objectives. A table with the percentage allocated to each category is attached in Annex C.

3.10 Consultation on the Operational Programme

Two rounds of consultation were launched during the development of the London ERDF Operational Programme in order to maximise stakeholder involvement and input. The first, a pre-consultation exercise, was held over six weeks from August until early September 2006. This was scheduled at an early stage in the development of the Operational Programme to facilitate the early involvement of key stakeholders and seek their views on the aims, objectives and priorities of the programme.

The second, and main round, was a 12-week open public consultation on the draft Operational Programme, which ran from 21st December 2006 to 21st March 2007. This consisted of two elements:

1. Questionnaire: the draft Operational Programme had an accompanying questionnaire consisting of eight questions that gave stakeholders the opportunity to provide structured feedback.

A total of 29 written responses were received from a wide cross-section of stakeholders from the European Commission, central and local government, sub-regional partnerships, further and higher educational institutions, the voluntary and community sector, business owners and business support organisations.

2. Stakeholder Seminars: a series of seven seminars were held to increase the awareness and maximise the participation of stakeholders in the consultation process. These events were held in partnership with the LDA and organised, structured and run by stakeholder representative bodies.

The main targeted groups for the seminars were: London boroughs; sub-regional partnerships; business owners; the voluntary and community sector; higher and further education; black, Asian and minority ethnic groups; business support organisations; and existing London European Programme committee members.

The written responses and the discussions held during the seminars provided a range of comments that covered the full spectrum of opinion. All the comments were collated and carefully analysed. A number of key issues emerged and, where possible, these have been incorporated in the final version of the Operational Programme and will be taken into account when developing the implementation processes of the Programme.

3.11 Delivering the Programme in partnership

The Mayor of London is committed to working in partnership with stakeholders in the development of the ERDF. This is vital both in designing the Programme and in ensuring its effective delivery.

As set out above, the principal stakeholders that have influenced the design of the Operational Programme and who will participate in the development and implementation of the ERDF Programme over the next six years are the 33 London boroughs, the voluntary and community sectors, higher and further education; the private sector, sub-regional partnerships, the Skills Funding Agency, Jobcentre Plus and other public sector organisations.

An important aim is to reinforce the performance and quality of the Programme by supporting engagement with all groups. An ERDF Local Management Committee, with overall responsibility for the implementation of the Programme, will ensure that the appropriate structures are created and stakeholders can actively participate in an effective way in the implementation of the Programme.

Through partnership working, the Mayor aims to avoid duplication of programmes and ensure maximisation of additionality and effectiveness. He expects that partners will be involved proactively to support this Programme, and will ensure that ERDF Operational Programme systems and procedures are open and transparent.

The scale of private investment in London is enormous, reflecting confidence in the city's future. This Programme will particularly promote the engagement and development of SMEs. We will therefore actively encourage the involvement of the private sector in the implementation of the Programme and will ensure that they have a representative voice at all levels.

It is also important to engage with higher and further education institutions as they play a fundamental role in several areas of this Programme, but in particular around innovation and research.

The implementation of the Operational Programme should ensure that the economic benefits of the ERDF Programme are felt by Londoners at all levels. London boroughs and sub-regional partnerships are key to the development and implementation of economic, social and environmental policies at a local level and will therefore be key partners in ensuring the Programme and its delivery are well aligned to the specific issues at local level.

All the programmes will need to be underpinned by the effective participation of the voluntary and community sectors. It is essential to create the right links between the priorities, participant organisations and beneficiaries. Hence projects and activities funded under all ERDF priorities should be available to all sections of the business community, and in particular businesses led by socially excluded groups who traditionally do not access publicly funded economic development programmes. The 2000-06 Programme has demonstrated that the voluntary and community sector is well placed to ensure that the benefits of the Programme reach excluded and disengaged communities and citizens; and the 2007-13 Programme will encourage the voluntary and community sector to actively engage in the delivery and support of all the Priority Axes; supported by Technical Assistance where needed.

In conclusion, the Mayor of London's role will be to champion the Programme and ensure that all sectors are appropriately involved in its development and implementation. Stakeholders will play a particular role in their area of expertise.

4. Priority Axes

This chapter sets out the four Priority Axes including aims, objectives, indicative activities, outputs and financial allocation.

The Priority Axes are:

1. Business Innovation and, research & promoting eco-efficiency
2. Access to new markets and access to finance
3. Sustainable Green Infrastructure
4. Technical Assistance

Underpinning each of these themes is a commitment to equality of opportunity and environmental sustainability, which are considered in more detail in chapter 5 of this document. There are also significant synergies between the ERDF and planned ESF Operational Programme, which are considered in chapter 7.

To ensure compliance with the Lisbon Agenda, well over 75 per cent of the activities funded under this Programme will deliver Lisbon objectives.

There is no rigid spatial targeting for Priorities 1 and 2, although all projects will need to demonstrate a particular focus on benefiting disadvantaged communities and areas. There is spatial targeting in Priority 3, which will focus on London's Regeneration, Opportunity and Intensification Areas.

Whilst there is no rigid targeting by industrial sector, a core theme of promoting eco-efficiency and addressing climate change runs through all the priority axes. Furthermore, given the marked and increasing dominance of the services sector in the London economy, the bulk of the Programme's resources are likely to be devoted to supporting businesses in this sector.

Programme indicators for each Priority Axis are set out at the end of this chapter.

4.1. PRIORITY AXIS 1: BUSINESS INNOVATION AND, RESEARCH & PROMOTING ECO-EFFICIENCY

Context and Rationale

Innovation is defined by the DTI as "the successful exploitation of new ideas". This provides an overarching concept for what this Priority Axis aims to achieve for London businesses. Innovation is a powerful driver behind output and productivity growth, which in turn is the basis of sustained prosperity. The activities will focus on the specific barriers to innovation that prevent many of London's businesses from achieving sustainable growth and productivity.

Key inhibitors to innovation for SMEs have been identified in the preceding chapters as: insufficient market information regarding the benefits of innovation, complex research and development and knowledge transfer processes. Also, SME decision-making is often

short-term and does not consider long-term benefits of innovation, and information and advice is too expensive or inaccessible.

Although London boasts the highest rate of labour productivity in the UK overall, there are substantial segments of the economy which have low levels of productivity and innovation, as measured by LABS indicators (see section 2.5). We know that many of these businesses are BAME owned SMEs, operating within low value-added sectors and facing a spectrum of problems when it comes to innovation. Gaining appropriate market intelligence about the potential returns on investment in innovation and lack of knowledge as to how to access the resources to invest in innovation create barriers to innovation and generate a culture of low expectation and vulnerability to the vicissitudes of the market. Developing a wider culture of innovation and the capacity to formulate and implement innovation strategies that recognises and addresses these issues is therefore a key theme under the innovation axis.

A separate but related market failure relates to the transfer and exchange of knowledge from innovation-rich organizations and educational institutions to innovating SMEs. Addressing this market failure would, for example, enable innovating businesses to leverage the high levels of R&D carried out by London's higher education institutions in order to support the development of new products and processes. Knowledge exchange between businesses is also an important driver of innovation (ref LABS) but many firms may find it difficult to establish the links with other businesses in order to create the collaboration necessary to drive innovation. This is particularly the case between large business (with extensive knowledge resources) and smaller firms (with a high capacity to innovate). Collectively, the educational institutions and high innovation businesses constitute London's 'knowledge base'. The second key theme therefore relates to this issue and seeks to facilitate the transfer, exchange and exploitation of knowledge that helps drive up the capacity of SMEs to innovate.

The environment sector currently represents 0.6% of London's businesses. However it undertakes extensive innovation activities (such as collaborative and R&D spend), though as identified in the socio economic analysis, there are gaps in this for some SMEs, the sector is expected to grow substantially. The economic and social challenge of climate change therefore offers a range of opportunities. The innovation activities in this area apply both to businesses that are specifically working in the environmental sector, and to all other businesses that can increase eco-efficiency by introducing new behaviours, processes and clean technologies. This will help ensure that all London's SMEs have the best possible support to improve their environmental performance and that of associated products, processes and services so that they are in a position to maximise their competitiveness. This Programme will, for example, seek to support the deployment of low-carbon technologies and remove barriers to energy efficiency as well as novel work in environmental innovation related to construction, transport and production industries.

Aims and Objectives

The objective of this priority is to improve London's capacity for innovation in those sectors which need this by encouraging adaptation of innovation processes, including development of new products, processes and services leading to increased growth, competitiveness and improved environmental performance in SMEs. The programme will also assist London's businesses to make the most of London's diverse knowledge base in order to create new commercial opportunities and effectively exploit new ideas. The two core themes identified under this priority axis are:

1. Developing a culture of, and capacity for, creating and using innovation throughout London's businesses to create sustainable economic growth.
2. Leveraging value from London's world-class knowledge base to benefit London's economy.

Each theme will support specific services to business that address the market failures and barriers to innovation outlined above.

Indicative activities to be supported under theme 1: Developing a culture of, and capacity for, creating and using innovation throughout London's businesses to create sustainable economic growth

This Priority Axis addresses the barriers to innovation faced by London's businesses, ranging from introductory activities aimed at individual SMEs with very low innovation output to putting in place innovation strategies for groups of businesses. This will include concrete measures to improve the environmental performance of all businesses.

Some projects will build on and extend existing development opportunities, such as the Business and Intellectual Property (IP) Centre⁷⁰ at the British Library. The activities will need to build upon the experience of previous Objective 2 projects to spread best practice in innovation and environmental performance across a wider range of London's businesses. There will also be a need to work with stakeholders on designing completely new projects- for example, in supporting innovative approaches to activities that mitigate and adapt to climate change – by bringing in new partners and brokering new delivery partnerships.

Table 4.1

Theme 1: Developing a culture of, and capacity for, creating and using innovation throughout London's businesses to create sustainable economic growth	
Action	Indicative Activities
Promoting Innovation	Raising awareness of innovation among SMEs that are currently not investing in innovative activities, including showcasing the benefits of innovation and developing projects to overcome barriers to innovation facing BAME, female and disabled entrepreneurs
	Providing innovation guidance and support for businesses in innovation and commercialisation strategies in areas such as intellectual property issues, prototyping, cross-sector innovation, design and market analysis
	Supporting business-led networking to encourage collaboration and the development of collaborative innovation strategies and action plans
Promoting Environmental Performance	Advice and information to promote innovation and best practice in waste reduction, energy and water efficient processes and mitigating the impacts of climate change

⁷⁰ The Business and Intellectual Property centre provides a single access point to support entrepreneurs and SMEs in London in gaining access to and exploiting existing and new business and IP information, and other relevant content and data, assisted by impartial library information experts.

	Raising awareness and providing information on measures to improve the overall environmental performance of a business and to reduce the impact upon climate change and the natural environment
	Support to undertake 'green' diagnostics and develop environmental action plans

Indicative activities to be supported under theme 2: Leveraging value from London's world class knowledge base to benefit London's economy

The aim of this theme is to increase the level, supply and exploitation of knowledge and innovation to SMEs by improving knowledge exchange mechanisms and business access to knowledge and technology transfer services. This Priority Axis recognises the diversity of different approaches to creating, transferring and commercialising knowledge; for example, using specific and long-term relationships between many further education colleges and SMEs within their close locality.

Business to business collaboration is an important driver of innovation in London (LABS 2005), and there are opportunities for the ERDF to harness this opportunity for knowledge transfer. Activities will support collaboration between SMEs and established knowledge rich companies in order to generate opportunities for wealth creation.

Within this theme, where appropriate the programme will build on previous ERDF investment, which have introduced new mechanisms to assist access to the knowledge base, long-standing support to encourage people transfer between businesses and the knowledge base, and direct support for 'proof of concept' work.

Table 4.2

Theme 2: Leveraging value from London's world class knowledge base to benefit London's economy	
Action	Indicative Activities
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 such as R&D in bio-fuels, environmental technologies and novel materials
	Creating knowledge transfer capacity mechanisms in Further and Higher Education that are suitable for providing broader access to innovation for SMEs that are currently not investing in innovative activities and practices
Innovation Collaborations	Supporting the exchange of people between business and the Further and Higher (FHE) Education knowledge base
	Business to business knowledge transfer, especially the cross-sector situations- e.g. ensuring peer to peer communication of best practice, impact of design on production, distribution channels in film, music and leisure software, links between construction industry and environmental technologies
Environmental Transformation	Raising awareness and adoption of technologies to reduce carbon emissions
	Supporting the development of markets for new energy technologies
	Demonstration projects that support environmental transformation for business.
Proof of Concept and Intellectual	Direct support to undertake applied research and product development, potentially including prototypes, for SMEs

Property advice	Advice and support to help research and prove the feasibility of an idea including; protecting, obtaining and exploiting intellectual property rights.
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4.2 PRIORITY AXIS 2: ACCESS TO NEW MARKETS AND ACCESS TO FINANCE

Context and rationale

A significant part of London's innovation and economic potential lies within SMEs and those individuals wanting to start a business. Appropriate infrastructure and services are critical to supporting and nurturing this potential, and to sustain a dynamic SME economy. Small firms and entrepreneurs are often the source of innovative and viable ideas but usually have fewer resources, fewer specialist skills, and less capacity to deal with the challenges of turning these into commercial opportunities. They face greater risks and greater barriers to growth, and the regulatory burden is greater in proportional terms.

SMEs are major employers in London, especially of black, Asian and minority ethnic people, employing 73 per cent of London's resident non-white private sector employees. However, only 16.7 per cent of London's enterprises are majority-owned by women, 16.5 per cent black, Asian and minority ethnic owned and 2% are disabled owned. Several London boroughs – especially the most deprived – have much lower rates of business creation compared to the average. Some of the least well performing areas of London also demonstrate the highest business closure rates (Newham and Waltham Forest have the highest VAT deregistration rates in London (SBS 2007)). These variations in economic success underpin the focus of the Programme on addressing barriers affecting those communities and areas with relatively low levels of economic success.

Businesses will not be able to capture the benefits of innovation and growth if they are unable to access finance whether through lack of information, ineffective presentation of the merits of their propositions, or unavailability of appropriate investment finance. While there is a well developed capital market in London, there are a number of market failures and gaps. This is due to information asymmetry and a lack of scale economies that has led a maturing formal venture capital market to higher average investments, creating an 'equity gap' for investments under £2million. Even where other forms of finance are more appropriate, SMEs can face a number of barriers to securing growth capital. In particular, banks' loans policies frequently require assets or trading track records that effectively exclude many SMEs from access.

A key factor in poor business performance – and in business failure – is the inability to respond to rapidly changing market conditions. Innovation in product and process development is one way of adapting to new conditions. It is also important to be able to identify changing market trends and opportunities. Identifying such opportunities is a normal part of the entrepreneurial process but smaller firms, especially new firms, frequently lack the information relating to market changes that can stimulate entrepreneurship (both in new start-ups and established businesses). This is particularly the case where owners/managers do not have access to market information through business networks or supply chains and are forced to rely upon their own limited research efforts. In many cases, such barriers will lead to a resistance to changing strategy other than efforts to compete on price, which is shown by LABS data not to be the most effective strategy on average. This theme will support activities that remove these

information barriers and encourage adaptability, entrepreneurship, and development of new markets.

In the case of assistance granted from the Structural funds to a large enterprise, the Managing Authority undertakes to request an assurance from the enterprise concerned that the assistance will not be used in support of investment that concerns the relocation of its production or service facilities from another Member State of the European Union.

Aims and objectives

The activities under this Priority will focus on the strategic barriers to growth faced by SMEs and entrepreneurs in raising start-up and development finance and in understanding and accessing new market opportunities, in particular building on London's strong global links. This will build where appropriate on the London Objective 2 Access to Finance Programme so as to ensure that progress achieved can be sustained and expanded to a wider range of businesses. The programme will also draw upon experience gained in previous projects to support export development, procurement development and accessing high value supply chains.

Two core themes have been identified to achieve this Priority Axis:

1. Enabling access to appropriate investment finance to support innovation and growth
2. Improving SMEs' access to new market opportunities

Each theme will support specific services to businesses that address the market failures and barriers to innovation outlined above.

Indicative activities supported under Theme 1: Enabling access to appropriate investment finance to support innovation and growth

The lack of access to finance due to market failure represents a brake on the expansion of some businesses in the London economy. One high growth area is the environment sector and environmental technologies, where continuous advances in innovation, technology and legislation mean that finance is fundamental to the sector's development. The focus of this theme is to overcome these market failures and to ensure that businesses are able to obtain the appropriate type of finance to invest in sustainable growth. This will involve the provision of support to access funding from existing sources of finance as well as the creation of new funding sources.

SMEs have generally experienced greater difficulties than their larger counterpart in accessing finance and the barriers they face are well documented (e.g. Bridging the Finance Gap – HM Treasury 2003 Finance for Small Firms - Bank of England (2004), London Annual Business Survey – LDA (2005)). These studies, and experience of the London Objective 2 Access to Finance Programme, suggest that the two-prong approach of tackling the issues on both the demand-side and supply-side remains relevant and a continuing access to finance initiative is appropriate.

With regards to the demand-side a review of the finance readiness project under the London Objective 2 Access to Finance Programme helped to inform the development of activities in this area. Support under this theme allowed entrepreneurs and SMEs to understand the funding options available and how to prepare and present a viable proposal to secure the money they need to start and grow a business.

In view of the challenges faced by SMEs in accessing finance, a scoping study was carried out to establish the scale and type of provision required to assist London's SMEs. The scoping study concluded that there was clear evidence of finance gaps and that an estimated 1,300 businesses with potentially viable business plans are unable to access finance from any source.

This has informed the creation of a fund that will provide development finance to high growth businesses in the sectors which are important to London. The fund will be implemented by the company that was established to carry out similar activities under the 2000-06 Objective 2 ERDF programme and will thereby creating a route for reinvesting legacy funds

Table 4.3

Theme 1: Enabling access to appropriate investment finance to support innovation and growth	
Action	Indicative Activities
Financial awareness and investment readiness	Investment readiness advice and support to enable viable finance propositions to be developed
	Investment matching and/or brokerage to direct firms to appropriate sources of investment and raise awareness of opportunities in the investment community
	Specialist advice on equity and/or business angel investment in high growth firms; appropriate use of mezzanine finance arrangements
	Targeted support for high growth start-ups, including appropriate finance advice, coaching and mentoring
Debt finance and risk capital	Provision of finance to address market failures and gaps faced by SMEs including equity finance to address the market gap below £2m. .
	Provision of finance for businesses in the eco-efficiency/environmental sectors or SMEs seeking to incorporate eco-innovation, eco-efficiency or environmental technology measures to improve their environmental performance, and efficiency .

Indicative activities supported under Theme 2: Improving SMEs' access to new market opportunities

Strong global competitiveness pressures and rapidly changing markets have increased the need for businesses to maximise trade opportunities, in both domestic and international markets. Data shows (LABS 2003-05) that the most common cause for job losses or a downturn in performance in the capital is a contraction of market demand for goods and services and the inability to adapt to such changes in demand. Activities in this theme will be focused on helping companies to develop and adapt their market strategies to be able to exploit opportunities and improve their competitiveness and market reach.

Table 4.4

Theme 2: Increasing new and established SMEs' access to new market opportunities	
Action	Indicative Activities

Supporting internationalisation	Export advice to SMEs
	Support to understand international markets, especially emerging markets, and how to operate within them
	Support for firms or groups of firms to enter overseas markets, including support for trade missions
	Promoting innovative partnerships with overseas firms and institutions to exploit international economic and trade flows
Widening access to procurement and supply chain opportunities	Information and awareness on business to business and business to government procurement opportunities
	Advice, capacity building and mentoring support to help businesses become 'fit to supply'
	Strengthening London components of existing supply chains and helping businesses to enter new supply chains
	Promoting the benefits of supplier diversity and environmental sustainability to key London purchasers
Supporting entrepreneurship through new market opportunities	Supporting entrepreneurs to understand and exploit new market opportunities, especially in the environmental sector, through strategy development support, market research and access to specialist support
	Advice to businesses on adapting to market opportunities and changes

4.3 PRIORITY AXIS 3: SUSTAINABLE GREEN INFRASTRUCTURE

Context and rationale

The environment and its link to the economy represents key challenges to any society. The Stern Review has illustrated the magnitude of market failure and opportunity raised by the phenomenon of climate change. The general case for government intervention to manage environmental issues is clear in economic theory.

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 scale of the challenge London faces in reducing CO₂ emissions is significant, but achievable. The most recent measurement of London's CO₂ emissions shows that 44.71 million tonnes (Mt CO₂) was emitted in 2008, which is 8.5% of the UK's total CO₂ emissions. This is approximately level to London's CO₂ emissions in 1990, having fallen from a peak in 2000. When broken down by sector, nearly 80% of CO₂ emissions, in 2008, originate from energy supply to, and energy use in, buildings (homes and workplaces). Transport accounts for 22 per cent of London's CO₂ emissions. The Mayor has therefore set targets of reducing London's CO₂ emission by 2025 to a level that will be 60% below 1990 levels.

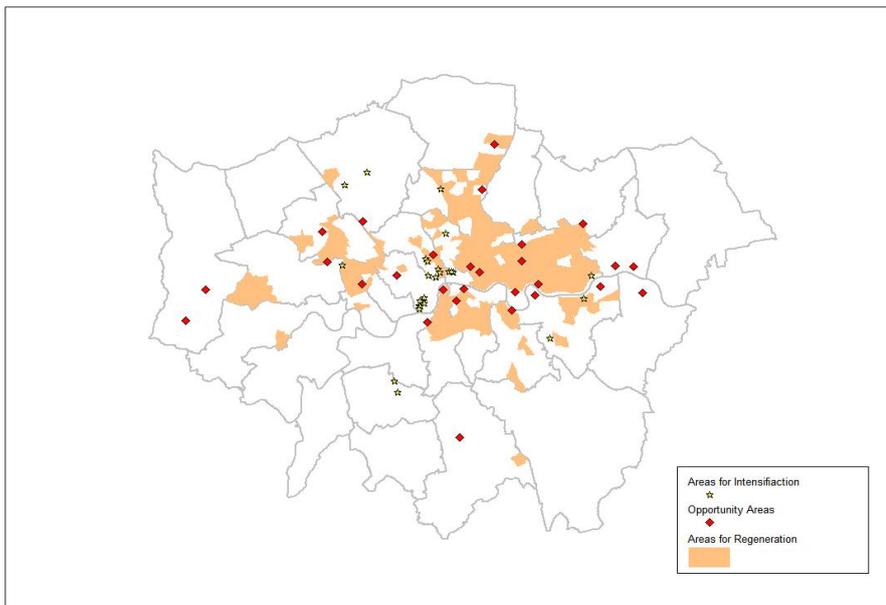
Business waste (from the commercial and industrial sector and that from construction, demolition and excavation) accounts for 16 million tonnes, or around 80 per cent of solid waste generated in London. The remaining 20% comes from municipal waste. Resource efficiency is now an increasingly important business consideration in the current economic climate. It is estimated that London's total waste management bill is in the region of £2 billion per year and if there is no change in the way London deals with its waste, this will increase year on year as the landfill tax increases. Climate change is also a

key consideration in what is done to manage our waste differently as landfill sites contribute 40 per cent of the UK's methane emissions, a powerful greenhouse gas.

Promoting innovation and growth is not only about assisting individual enterprises with their specific business needs, it is also about transforming the physical environment in areas where there are currently barriers to economic performance. London's Regeneration areas, many of which are in East London, are home to some of the poorest communities in UK as measured by the index of multiple deprivation. They are also often the most vulnerable to environmental shocks, such as flooding and other extreme weather events, due for example to the location of some of these areas in the River Thames Floodplain, although current flood protection measures are expected to be sufficient till at least 2100 (see section 2.7 of socio-economic analysis).

A key issue for much of these areas is the decay of the urban environmental infrastructure. These environmental challenges reduce the attractiveness of these areas for much needed business investment and deter new businesses from locating in these designated growth areas.

Map 1 - Opportunity, Regeneration and Intensification Areas – update



In the London Plan, Opportunity Areas have been identified as having the potential to accommodate large-scale development in London. Areas for Regeneration have been identified as areas where there is substantial deprivation and that have the greatest socio-economic need; while Areas for Intensification are existing town centres with the capacity for further development. Projects funded under Priority Axis 3 can help to drive the sustainable development of these areas (shown in the map above) and such projects will be actively encouraged.

As a general rule, activity funded through the programme must be located within London. However, very exceptionally, a project that is located outside London may be considered for support provided (a) it is situated in a NUTS III area adjacent to London, (b) all of the output and results will be delivered within London and (c) it meets agreed selection or investment criteria.

Activities falling under this axis will help implement UK Government economic policy and the NSRF; specifically ensuring sustainable development and building sustainable communities; and also the Mayor's London Plan and Economic Development Strategy.

Aims and objectives

The investments under Priority 3 are aimed at addressing the impact and realising the economic opportunities of mitigating and adapting to climate change thereby creating the foundations for sustainable regeneration in London. The justification for policy intervention rests on the general case for government intervention to address environmental issues, including the quality and sustainability of urban space. It is recognised that the innovation costs of environmental improvement, particularly where required investments would fall to a range of private actors, are currently inhibiting progress, and that targeted public intervention can assist in overcoming this barrier

To help ensure the achievement of the Mayor's target for CO2 reduction, the focus of investment will be on projects that will:

- (i) provide high quality premises, particularly for business use, which incorporate high environmental specification;
- (ii) develop sustainable infrastructure, especially those geared towards waste management and the provision of low carbon energy;
- (iii) retrofit existing buildings, including social housing; and
- (iv) improve the physical and environmental capacity of underperforming locations, including the provision of low carbon infrastructure for improving the connectivity of these areas to employment sites.

It was recognised that the EC and European Investment Bank's new financial engineering instrument 'Joint European Support for Sustainable Investment in City Areas 'JESSICA' could form the primary delivery mechanism for this Priority Axis. Following the conclusion of an evaluation study into the viability of such an Investment vehicle, a JESSICA Holding Fund for London – the London Green Fund – was established, with the European Investment Bank as the manager. In 2011, two urban development funds were created to provide repayable investments in waste and recycling infrastructure and energy efficiency schemes; decentralised energy systems can also be supported. A third UDF will provide investment for energy efficiency measures in existing social housing.

Table 4.5

The table of Potential Activities for Priority Axis 3 below will be delivered by a combination of grants and repayable investments (in the form of loans, equity and/or guarantees).

Theme 1: Supporting retrofitting, low/zero carbon environmental infrastructure and physical enhancement

Action	Potential Activities
Creating low or zero carbon premises with high accompanying environmental specifications	<ul style="list-style-type: none"> - Creation of low or zero carbon flexible business incubator and move on workspace that also has exemplar wider environmental specifications. These will be delivered through standards such as BREEAM 'Excellent or very good', or equivalent using the Mayors Sustainable Design and Construction Supplementary Planning Guidance Preferred Standards. - The adaptation and/or refurbishment of existing buildings, including social housing, to make them more sustainable and environmentally friendly. It could include at least the following areas of sustainable design and construction: energy and water efficiency; micro-generation and renewable technologies; use of sustainable and recycled materials; waste management strategy and recycling facilities. - Innovative proposals for the delivering very low or carbon-neutral new buildings will also be considered.
Contributing to the establishment sustainable infrastructure for waste management and low or zero carbon energy	<ul style="list-style-type: none"> - modification of industrial systems in order to recover 'waste' heat energy for distribution to end users or bulk distributors; - establishment of de-centralised co-generation (electricity and heat generating) and, where required, distribution systems to deliver low carbon heat and electricity. These new low carbon technologies could include: Combine Heat and Power (CHP); Combined Cooling Heat and Power (CCHP); and waste to energy systems such as gasification or pyrolysis. - establishment of local-area and area-wide heat networks supplied by decentralised energy systems involving setting up of transmission and distribution infrastructure for supplying heat to end users or bulk distributors - establishing transmission networks for joining up decentralised energy systems. - Install on-site solar, wind, biomass geothermal, anaerobic digestion, fuel cells or any other appropriate renewable energy generating technologies to deliver new innovative approaches to supplying zero carbon energy. - Establishment of value adding re-use, recycling and/or reprocessing facilities.
Addressing the economic risks of environmental degradation and climate change.	<ul style="list-style-type: none"> - Physical environmental enhancement of employment premises, sites and surrounding areas through the creation of high quality accessible green and open space, and low carbon infrastructure to improve connectivity; - Incorporation of flood risk management and river restoration, involving appropriate design and lay-out so that flood risk and surface water management is actively addressed in a sustainable way; and - the creation and enhancement of accessible and functional green corridors along rivers and through existing public space to ensure that employment sites are well connected, by foot and cycle paths, to neighbouring employment sites, residential areas and the wider community, town centres and public transport hubs. <p>Activities that remediate contaminated land and bring it back into productive use, including integrated landscaping for people and biodiversity; and improved accessibility.- provide integrated energy, water and waste systems, services and facilities as part of physical sustainable urban regeneration activity that will enable businesses located in these areas to achieve high levels of environmental efficiency in areas of energy, water and waste management</p>

4.4 PRIORITY AXIS 4: TECHNICAL ASSISTANCE

In accordance with Articles 45 and 46 of the EC Regulations No 1083/2006, the London ERDF Operational Programme includes Technical Assistance (TA) as one of its Priority Axes. In compliance with these regulations, a maximum of four per cent of the total London ERDF budget is allocated to this priority.

Technical Assistance has been used successfully to build and support the development and implementation of the Objective 2 and Objective 3 programmes within the 2000-2006 ERDF Programme. The future London ERDF Operational Programme will continue to build on this success and, where appropriate, will identify opportunities for development and improvement.

TA can also be used to support the development of the 2014-20 ERDF Operational Programme.

Technical Assistance in the London ERDF Operational Programme will be allocated to one theme:

1. Support, development and enhancement of the management and implementation of the London ERDF Operational Programme

Indicative activities : Support, development and enhancement of the management of the London ERDF Operational Programme

Aims and objectives

This priority will aim to facilitate and support the development, monitoring and implementation of the ERDF programme in London. Through the activities funded under this priority, the Programme will ensure that EC and UK regulations are complied with, and there is maximum benefit from European and UK funding for Londoners. This will include funding for programme publicity, in line with EU guidance.

Furthermore, under this priority the programme will fund those activities that, although not directly correlated to ERDF administrative activity, play a key role in sustaining and strengthening the implementation of the ERDF programme in London. Funding will be allocated to projects that help ensure that interventions are evidence-based, and that the programme is informed by lessons learnt from experience.

Rationale

Effective management and administration of the programme will be crucial to the achievement of its objectives. The Mayor of London will seek to obtain maximum benefit from Structural Funds by funding activities that will support and enhance the development and implementation of the programme.

The programme will be implemented in partnership with London stakeholders from the voluntary, community, private, public and higher and further education sectors who are partners in delivering the ERDF London objectives. In some instances their input will require extra support or assistance, which could be provided through Technical Assistance.

In addition, there will be instances when specific studies and research are required to inform the strategic development of the programme. Technical Assistance funding will enable these types of activities to be undertaken.

Theme 1: Support, development and enhancement of the management of the London ERDF Operational Programme	
Action	Indicative Activities
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, including those of a general nature concerning the operation of the funds. Research and collection of baseline and statistical information
	Publicity, marketing and communications for the ERDF programme
	Support and development of the ERDF cross-cutting themes
	The installation, operation and interconnection of computerised systems for management, monitoring, inspection and evaluation of the ERDF programme
	Measures aimed at supporting partners and beneficiary organisations that will provide assistance in the implementation and improvement of the ERDF programme in London
	Measure to disseminate information, network, raise awareness, promote cooperation and exchange experiences between ERDF projects.
Improvements in evaluation methods and the exchange of information on practices in this field	

4.5 Programme indicators

The indicators, and their corresponding targets, for each of the Priority Axes are set out further on in this chapter. The targets are for the lifetime of the Programme, that is, until 2015. They were originally developed taking account of the experience and data from the 2000-06 Programme. Factors taken into account include the reduced funding for this programming period; the more intensive level of specialist intervention intended under this Programme; the planned allocation to each activity within each Priority Axis and the strategic difference in Priorities between the new Programme and the previous one.

Following the independent interim evaluation of the ERDF programme in summer 2012, the indicators and associated targets were revised to reflect actual and pipeline activity.

The indicators shown below include core ERDF national and additional regional indicators. The national indicators, which were finalised in April 2007, and are required to be reported on by central government, do not cover all the activities that will be supported by the new London Programme and consequently additional regional indicators have been developed. These complement the national indicator set, and together with planned impact evaluations they will capture and measure the activities funded under the new London Programme. This approach reflects recommendations from the ex-ante evaluation.

Beneficiary organisations will be contracted to deliver relevant Programme level indicators and will subsequently be required to monitor and report on these.

During the implementation of the Programme, project applicants will need to demonstrate how their projects will benefit black, Asian and minority ethnic groups, women and disabled people. They will need to show how they intend to deliver an appropriate proportion of relevant outputs and results for these groups. Further information is provided in the Equal Opportunity cross-cutting theme section.

Where there are no targets set for Indicators, this is because they are dependent on the mix and type of activity that will ultimately be supported. These Indicators will be reported on in the same way as the other indicators and achievements will be quantified through the evaluation process at a project and Priority Axis level.

London ERDF Performance Indicators guidance sets out definitions, measurement methods and, where appropriate, sources of information for each of the Programme indicators listed in the Operational Programme.

The proportion of BAME, women and disabled people for relevant indicators will be 35%, 34% and 5%, respectively, of the Priority Axis target.

Priority Axis 1

Indicators - Priority Axis 1

Output Indicators	Target
No. of businesses assisted Of which a minimum of 5% will be in the environment sector	7557
No. of businesses within the region engaged in new collaborations with the knowledge base	1,500
No. of businesses involved in collaboration networks	2,500
No. of SMEs referred for environmental advice	2,000
No of SMEs supported to achieve quantifiable improvements in their environmental performance	2,000
Result indicators	
No. of jobs created Of which a minimum of 5% will be in the environment sector	850
No. of jobs safeguarded	1,550
No. of innovation related jobs created	220
No. of businesses with improved performance	4,000
No. of innovation related projects secured/undertaken -Of which at least 50 will be projects secured/undertaken as a result of collaboration networks	320
No. of businesses integrating new products processes or services	870
Impacts expected from Priority Axis 1	
Increase in GVA	€45m

Priority Axis 2

Indicators - Priority Axis 2

Output Indicators	Target
No. of businesses assisted	12,000

Of which a minimum of 5% will be in the environment sector	
No. of SMEs engaged in the access to finance programme	920
No. of SMEs supported through the access to finance programme to improve their environmental management and performance <i>(this indicator was taken out of use for new ERDF projects from October 2012)</i>	10
No. of SMEs with sales in new markets	1,500
Successful international joint ventures or contracts <i>(note: for new projects contracted after October 2012, this indicator is relevant for export projects only).</i>	80
No. of SMEs using their environmental credentials or products to access new markets or supply chains <i>(this indicator was taken out of use for new ERDF projects from October 2012)</i>	150
Result Indicators	
No. of jobs created	1,060
Of which a minimum of 5% will be in the environment sector	
No. of jobs safeguarded	2,210
New sales generated	€107M
No. of businesses with improved performance	2,690
Impacts expected from Priority Axis 2	
Increase in GVA	€82m

Priority Axis 3

Due to the nature of the activities supported under this Priority, some of the benefits and impacts will be realised after the activities undertaken have been completed and can be captured through an evaluation process

Indicators - Priority Axis 3

Output	Target
Brownfield land reclaimed and or redeveloped (hectares) ⁷¹	5
Total new or upgraded floor space (metres squared) ⁷²	5500
No. of demonstration projects show-casing latest co-generation or renewable energy technology systems	1
No of employment sites with environmental improvement programmes to address identified deficiencies in accessible open space and/or access to nature in employment areas	3
Area of workspace gaining BREEAM rating of 'Very Good' or 'Excellent' or equivalent (in meter square)	600
No of projects incorporating sustainable drainage systems	3
No of projects installing de-centralised co-generation or renewable energy generation technology	1
Area of Green and Brown roofs created (in metres squared)	1,500
Volume of additional flood storage capacity created (in metres cubed)	27,525
Length of water course restored or significantly enhanced (in metres)	7,400
Result Indicators	

⁷¹ This will be undertaken where it is deemed essential as part of the regeneration or environmental efficiency processes in the areas prioritised under Priority Axis 3.

⁷² Upgraded floor space - This value has been calculated as the cumulative square metres directly attributable to the ERDF contribution to projects and is not the cumulative value of the total project outputs which would be higher.

No. of jobs created ⁷³	400
No of jobs safeguarded ⁷⁴	175
No. of SME assisted ⁷⁵	0
Additional capacity of renewable and co-generated energy production (MW)	40
New or refurbished buildings with environmental specification in line with the London Plan (metres squared)	5,500
Number of new or existing businesses locating to eco-efficient, high quality work spaces	0
No. of businesses supplied with low or zero carbon energy	0 ⁷⁶
JESSICA: Reduction in CO2 (tonnes per annum)	74,667
JESSICA: Waste diverted from Landfill (tonnes per annum)	245,000
JESSICA: Energy Savings (%)	20
Impact Indicators	
Increase in GVA	€0m
Increase in London's capacity to generate de-centralised co-generated and renewable energy	20%

London-wide Baseline Figures 2007 (figures for 2012 below)

Indicator	London baseline	Source
Number of SMEs	674,615	Small Business Service, start of 2005
Number of businesses with no employees ⁷⁷	511,235	
Number of businesses employing between 1-249 workers	163,380	
No of unemployed (seasonally adjusted Dec-Feb 2007)	299,000	Office for National Statistics (ONS), 'Labour market statistics', April 2007.
Area of brownfield or previously developed land	3000 Hectares	London Brownfield Sites Review (Stage 1) - LDA commissioned document January 2007
Estimated Carbon Dioxide emissions 2006 (Mt)	44 Mt (excluding aviation)	"London Energy and CO2 Emissions Inventory; DEFRA" Note: 2006 figures are based on latest available LECI data (for 2003) projected to 2006 based on projections for each sector.
Decentralised energy capacity (MWh)	205 MWh	'Green light to clean power' February 2004 - Mayor's Energy Strategy
Annual GVA (£) (reported in 2003 constant prices)	198.7 billion	London's economic outlook, Spring 2007
Total employment in private	3,915,000	Small business service, start of 2005

⁷³ Due to the nature of the interventions under Priority Axis 3, most of the Results will be realised after the activities undertaken have been completed. However, this target represents the jobs that may be created as a result of the activities supported, for example by the London Cable Car.

⁷⁴ This target represents the jobs that may be safeguarded as a result of the activities supported such as the London Cable Car

⁷⁵ This relates to the number of SMEs that will benefit from environmental and urban enhancement activities under Priority Axis 3.

⁷⁶ This target will be reviewed after the JESSICA Evaluation Study.

⁷⁷ These constitute sole proprietorships, partnerships based on the self-employed owner-manager and companies comprising a sole employee director.

sector. (headcount)	1,836,000	
Employment in SMEs ⁷⁸ (headcount)		
Stock of VAT-registered enterprises at start of 2006	288,000	Small business service (October 2006)
Number of business registrations in 2005	33,900	
Number of business de-registrations in 2005	30,200	
Net change during 2005	3,700	
1 year survival rates of businesses registering in 2004	91%	Small business service (February 2007)
3 year survival rates of businesses registering in 2002	67%	
Equality profile of private business owners by majority ownership:		London Annual Business Survey, 2005. Based on a sample of 4002 private businesses
Ethnicity of owners	77.1% - white 5.2% - black 8.9% - asian 0.3% - mixed 2.1% - other 6.4% don't know/refused to answer	
Disabled owners	2% - disabled	
Gender of owners	58.9% - male 16.7% - female 16.8% - 50:50 male-female 7.6% don't know/refused to answer	
Equality profile of business owners in the environmental sector		London Annual Business Survey, 2005. Based on a sample of 4002 private businesses
Ethnicity of owners	96.4% majority white 0% majority black 0% majority Asian	
Gender of owners	59.2% majority male 4.9% 50:50 male/female 31.5% majority female 4.4% don't know/refused to answer	
Percentage of business owners reporting problems in accessing external finance by ethnicity:		London Annual Business Survey, 2005. Based on a sample of 4002 private businesses
Majority white	33.4%	
Majority black	48.1%	

⁷⁸ This includes both those businesses comprising sole owners and all businesses hiring up to 250 employees.
London ERDF Operational Programme 2007-13 (updated December 2013)

Majority Asian	26%	
Percentage of business owners approaching banks for finance by ethnicity of owners (and success rate)		
Majority white	58.5% (68.8%)	
Majority black	75.5% (44.2%)	
Majority Asian	51.7% (57.4%)	

London-wide Baseline Figures 2012 (based on 2011 Annual Implementation Report)

Indicator	London baseline	Source
Number of SMEs	746,760	Business Population Estimates for the UK and the Regions (2011), BIS
Number of businesses with no employees ⁷⁹	575,010	
Number of businesses employing between 1-249 workers	171,750	
No of unemployed (16+), seasonally adjusted, November – January 2012)	433,000	Office for National Statistics (ONS), Regional Labour Market Statistics, March 2012
Area of brownfield or previously developed land	3,730 Hectares	National Land Use Database of Previously Developed Land, HCA, (2009)
Estimated Carbon Dioxide emissions 2009 (Kilotonnes of CO ₂)	41,637	Carbon dioxide emissions within the scope of influence of local authorities (previously National Indicator 186), DECC.
Decentralised energy installed capacity	2,097 MW	Decentralised Energy Capacity Study; Phase 1: Technical Assessment (October 2011), GLA.
Annual GVA (£) (reported at current basic prices)	£274.1 billion	ONS Regional Gross Value Added, (2010).
Total employment in private sector (headcount)	4,364,000	Business Population Estimates for the UK and the Regions (2011), BIS.
Employment in SMEs ⁸⁰ (headcount)	2,162,000	
Stock of VAT and/or PAYE registered businesses as of 27 March 2009	394,055	UK Business (2011), snapshot of the Inter Departmental Business Register on 28 th March 2011
Number of business registrations in 2009	52,755	Office of National Statistics, Business Demography, (2010 data)
Number of business de-registrations in 2009	60,290	
	-7,535	

⁷⁹ These constitute sole proprietorships, partnerships based on the self-employed owner-manager and companies comprising a sole employee director.

⁸⁰ This includes both those businesses comprising sole owners and all businesses hiring up to 249 employees.

Net change during 2009	(-1.9%)	
1 year survival rates of businesses registering in 2009	88.3%	Office for National Statistics, Business Demography (2010 data)
3 year survival rates of businesses registering in 2007	59.5%	
<p>Equality profile of private business owners by majority ownership:</p> <p>Ethnicity of owners</p> <p>Disabled owners</p> <p>Gender of owners</p>	<p>White – 71% White British – 58% White other – 11% White Irish – 2%</p> <p>Black/Black British – 7% Black/Black British African – 4% Black/Black British Caribbean – 3%</p> <p>Mixed and other: 3% Mixed – other 2% Other ethnic group – 1%</p> <p>Asian/ Asian British – 12% Asian/ Asian British Pakistani – 2% Asian/ Asian British Indian – 7% Chinese – 1% Asian/ Asian British - Other 2%</p> <p>Prefer not to say - 5% Disabled – 8% Not disabled - 88% Prefer not to say - 4%</p> <p>Male – 67% Female – 33% Transgender – 0.24% Prefer not to say – 0%</p>	<p>Wave 3 Business Confidence Index (February 2010)</p> <p>Based on a sample of 3076 pre starts and SMEs</p> <p>Question based on respondent</p>
<p>Equality profile of business owners in the environmental sector</p> <p>Ethnicity of owners</p> <p>Gender of owners</p>	<p>80.7% majority white</p> <p>0% majority black</p> <p>3.4% majority Asian</p> <p>79.5% majority male</p> <p>12.2% 50:50 male/female</p> <p>5.9% majority female</p> <p>2.3% don't know/refused to answer</p>	<p>London Annual Business Survey, 2007. Based on a sample of 4527 private businesses</p> <p>*Note: new definition of Environment sector used. Comparisons therefore should not be made to previous editions.</p>

Percentage of business owners reporting problems in accessing external finance by ethnicity:		Wave 3 Business Confidence Index (February 2010)
Majority white	6%	Based on a sample of 3076 pre starts and SMEs
Majority black	13%	Question:
Majority Asian	8%	<i>Q16. From the list below, please indicate which one issue is the major problem you face in running your business at the moment?</i>
		List includes:
		Access to financing/credit from banks

5. Cross-cutting themes

5.1 Sustainable development and cross-cutting themes

The London ERDF Operational Programme aims to make a positive difference to the lives of people living and working in London. Integrating sustainable development and the cross-cutting themes of equality and environmental sustainability, alongside the economic development goals that are the primary focus for the Programme, is fundamental to this.

This is the approach promoted by the Mayor's Strategies for London, the draft UK National Strategic Reference Framework, the EU's Structural Fund Regulation, the Community Strategic Guidelines and the Lisbon Agenda. London's unique diversity, as explained in the socio-economic analysis, and the particular environmental challenges and opportunities it faces mean these issues are of particular importance.

This sustainable approach to economic development will also contribute towards inclusive and healthy communities that will be able to access local economic opportunities, high quality facilities, an attractive, sustainable and diverse natural environment.

Equality and environmental sustainability have been fully integrated into the design of the Programme and will continue to be key to its development and delivery mechanisms. Consequently, all projects supported through the Programme must be able to demonstrate how these cross-cutting themes have been incorporated into their design and development, and in their delivery mechanisms.

Sustainable development

Sustainable development has been defined as:

*'A process that seeks to ensure a better quality of life for everyone, now and for generations to come.'*⁸¹

⁸¹ A Better Quality of Life – the UK's Strategy for Sustainable Development, May 1999
London ERDF Operational Programme 2007-13 (updated December 2013)

Sustainable development recognises that social, economic and environmental issues are interdependent and that activity in one of these areas should not be pursued in isolation but should also have consideration for each of the other areas.

5.2 Strategic Alignment

European context

The EU Community Strategic Guidelines and Lisbon Agenda define the focus of the new Structural Fund Programmes. They promote sustainable development and refer to the EU's Sustainable Development Strategy as fundamental in shaping the development and delivery of EU Structural Funds. The EU Sustainable Development Strategy, adopted in Gothenburg in 2001, was recently reviewed and adopted by the European Council in 2006. A revised Sustainable Development Strategy was then adopted with more focused objectives and new milestones. The key issues relevant to ERDF are: promotion of measures to address climate change, clean energy, effective management of natural resources, social inclusion and responding to trends in demography and migration.

National context

In March 2005, the UK government launched its strategy for sustainable development, *Securing the Future*, which is designed to bring together social progress, the environment and the economy at the heart of policy-making.

The strategy identifies guiding principles that will be used to guide policy and aid progress towards sustainable development. The guiding principles state that the goals of the strategy are: 'living within environmental limits', 'ensuring a strong, healthy and just society' and that they will be delivered by: 'achieving a sustainable economy', 'promoting good governance' and 'using sound science responsibly'.

The strategy also identifies four agreed priorities for immediate action:

- sustainable consumption and production
- climate change
- natural resource protection
- sustainable communities
- Regional context

As set out earlier in this document, the Mayor's Strategies set out an integrated framework for London's sustainable development. They address spatial and economic development, the management of municipal waste, transport, biodiversity, air quality, culture, ambient noise, energy and food.

The Mayor also set up the London Sustainable Development Commission (LSDC) in 2002, to produce London's Sustainable Development Framework and to advise on sustainable development issues in the capital. The Framework sets out a vision for London and has 4 overarching principles and 13 objectives to help integrate sustainable development into policy development and the decision-making process. The 4 principles are: taking responsibility, developing respect, managing resources and getting results. For details go to: <http://www.londonsdc.org/>

Implementation in the Operational Programme

The London Sustainable Development Framework's principles are taken into account, within activity supported under Priority Axes 1 and 2, and are the central focus for activity supported under Priority Axis 3.

As noted in Section 3.6, a Strategic Environmental Assessment (SEA), an Equalities Impact Assessment (EIA) and an Ex-ante Evaluation have been conducted to contribute to the development of the Programme, and help ensure that all elements of sustainable development have been duly considered.

5.3 Environmental sustainability cross-cutting theme

Environmental sustainability has been defined as follows:

*'In the context of European Structural Funds environmental sustainability aims to minimise 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.'*⁸²

5.4 Why integrate the environment into economic development?

The natural environment is one of the most basic contributors to our quality of life. Fundamentally, it is the air we breathe, the water we drink, the land from which we produce our food and the natural resources that we all rely on. We ultimately depend on a healthy, natural environment for the contribution it makes to both our physical, mental and spiritual wellbeing, and to high, stable levels of economic growth and employment.

Historically economic development has often been pursued in an unsustainable way that did not take sufficient account of the environmental impact it had, or the opportunities it offered for protecting and enhancing the natural environment. This approach often results in unsustainable growth that does not deliver improved quality of life for the whole of our community. It is therefore no coincidence that many of the areas whose communities suffer from the worst social and economic deprivation, are also the most environmentally degraded locations. The ERDF Programme specifically addresses these issues, particularly through Priority Axis 3.

A clean, safe and healthy environment, where the natural and built environments complement each other, has a powerful capacity to attract businesses that generate jobs, help address social inequality and promote community pride. This can ultimately make the difference between long-term economic success and failure. By integrating environmental sustainability into economic development activity and addressing the impacts and opportunities the environment represents, we can start to decouple economic growth from environmental degradation. This approach needs to take account of how economic development activity can:

- prevent or minimise its environmental impact
- use natural resources more efficiently and sustainably
- realise the opportunities it offers for environmental enhancement
- realise the economic opportunities and jobs that are associated with both the growing environmental sector and the incorporation of good environmental management practice into all business sectors.

Environmental integration and investment will contribute to the growth of the local economy in three main ways. It will:

⁸² 2000-2006 Objective 2 Programme Document

- *ensure the long-term sustainability of economic growth*, for example through business growth and diversification including accessing new environmental markets and green supply chains, through inward investment in high-quality built and natural infrastructure that will help to attract and keep high-value businesses and a skilled work force, or by responding to environmental legislation
- *decrease internal and external environmental costs to the economy*, for example through cost savings related to improved environmental management and resource efficiency
- *stimulate innovation and job creation*, for example through investment and support for the growing environmental sector.

Integrating environmental sustainability into the Programme will help to ensure that the economic potential of the environment is harnessed to contribute directly to the aims and objectives of the EU's Lisbon Agenda and Cohesion Policy.

5.5 Environmental sustainability in regional strategies

The two defining Mayoral regional strategies guiding the ERDF Programme expressly illustrate the importance the Mayor attaches to integrating environmental sustainability into economic development, and are supported by his environmental strategies.

In the *London Plan*, it states that London should be:

“A city that becomes a world leader in improving the environment locally and globally, taking the lead in tackling climate change, reducing pollution, developing a low carbon economy, consuming fewer resources and using them more effectively.”

The Economic Development Strategy (EDS) states that a vital aspect of London's continued success will be the quality of its environment. It says that:

“The Mayor is committed to placing London at the forefront of the UK's and the world's transition to a more sustainable future. The aim is to capture the maximum potential economic growth and environmental benefits for London and the UK. It is the Mayor's firm belief that London should position itself as a leading low carbon capital for the provision of finance, business services and innovation within the global low carbon economy. To this end he has set some of the most challenging targets of any city – a 60 per cent reduction in London's CO₂ emissions by 2025.”

This policy context has shaped the approach taken by the ERDF Programme, and in particular the strong sustainability focus of Priority Axis 3.

5.6 Environmental sustainability in the London ERDF Operational Programme

Both 'horizontal' and 'vertical' environmental activities will be supported through the delivery of the Programme. Horizontal activity refers to the delivery of conventional economic activities with the integration of relevant environmental aims; vertical activity refers to the delivery of social and economic outcomes through projects with a strong environmental focus.

This Operational Programme is designed to deliver economic development, and there are three main areas where the environment will be especially relevant as either a horizontal

or vertical consideration. These will need to be considered and integrated into all relevant project activity supported by the programme. They are:

- improving environmental performance and awareness in all business activities and sectors, in particular regarding climate change
- developing the scope, capacity and performance of the environmental sector
- improving environmental quality where this can stimulate private investment.

5.7 Environmental objectives

Key environmental objectives which the Programme specifically seeks to address include those on:

- **Climate change and energy:** To mitigate the effects of climate change by reducing London's emissions of greenhouse gases and adapting to its impact. Activities such as promoting energy efficiency, developing and deploying renewable and alternative energy technology, and the development of sustainable flood management methods will be supported where these can contribute towards a more dynamic environmental business sector in London and particularly in Opportunity Areas.
- **Natural resources and waste management:** To address the unsustainably high levels of natural resources used to drive economic development and manage the waste that is produced as a result. Activities such as supporting resource efficiency, encouraging sustainable consumption and production, addressing all aspects of waste management and promoting closed loop recycling will be supported where these can promote eco-efficiency related businesses.
- **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. This is principally addressed through Priority Axis 3, which will use the principles of sustainable design and construction to ensure that buildings have high environmental specifications and that the surrounding natural environment is protected and enhanced to enable it to perform its full range of social, economic and environmental functions. Activities such as the delivery of demonstration low or zero-carbon developments, or the installation of demonstration environmental improvements to address either sustainable flood management, addressing issues of low quality urban space, or contributing to sustainable connectivity between and within communities, will be supported. The focus will be on encouraging environmental business clusters, particularly of environmental business, in and adjacent to Opportunity Areas, and promoting more environmental effectiveness across all businesses.
- **Environmental awareness:** To improve awareness and understanding of how good environmental management and performance can provide financial benefits and competitive advantage in all business sectors. Activity to support SMEs in integrating environmental management into business activity is principally addressed through Priority Axes 1 and 2. Activities such as work with businesses and business support organisations to make the business case for good environmental management and performance will be supported.

- Market development and support for the environmental sector: To ensure that the full economic potential of the environmental sector is realised and that London starts to establish itself as a national, European and global leader in the high-value environmental technology and innovation sector. Activities such as work with the environmental sector to make it more competitive and innovative in the national and global market will be supported.

5.9 Equal opportunity

The principles of promoting equality and diversity and ensuring that no groups are excluded from society are central to the Mayor's approach in London. This means a clear focus on promoting equality across the key dimensions of race, gender, disability, age, faith, and sexual orientation.

While London's overall economic performance is strong, it is also a city divided by the extremes of wealth, deprivation and social exclusion. Integrating the promotion of equality into the ERDF Programme not only complies with legislation, but is also essential in developing a dynamic and competitive city that fully reflects its citizens' diversity.

London is one of the most diverse cities in the world, and benefits from the richness of a range of cultures and ways of living. Over 300 different languages are spoken by its citizens and 29 per cent of the population is from a black, Asian and minority ethnic group. 14 different major religions or beliefs are represented; one in eight Londoners is aged over 65 and between 14 and 20 per cent of households in London include a disabled person⁸³.

Promoting equality will contribute to the growth of London's economy in line with the Lisbon Agenda and its emphasis on entrepreneurial innovation, jobs and growth and will help London's SMEs grow.

Having dynamic enterprises from a wide range of sectors and with a range of ownerships and workforces that reflect London's population, will contribute to its continued economic success. The aim is to support the creation of an environment in which people with entrepreneurial skills and flair from all of London's communities can develop their ideas and bring them to fruition. This would support both increased productivity overall and bring economic empowerment to those communities which do not currently enjoy their fair share of London's economic success.

Black, Asian and minority ethnic, female and disabled entrepreneurs are all under-represented within London's business community. The LDA's London Annual Business Survey Plan for 2005, shows that businesses that are majority-owned by females account for 16.7 per cent of the total. Black, Asian and minority ethnic groups account for 16.5 per cent, with only 2 per cent of businesses majority-owned by disabled people. It is recognised that within these overall figures, and in particular for certain ethnic groups, there are communities with much more adverse outcomes than these overall figures suggest. Our approach to promoting equality must seek to take account of this finer grained variation. ERDF project monitoring will therefore use a more detailed ethnic breakdown than simply tracking black, Asian and minority ethnic beneficiaries, drawing on census categories.

⁸³ GLA Economics

The ERDF programme will promote greater equality across all these areas of activity by seeking to tackle the barriers that these communities face in developing successful businesses and by embedding equality and diversity as key themes into the design, development, and delivery of the Programme.

5.10 Mainstreaming the promotion of equality

There is a range of legislation that underpins the equality agenda. The main legislative framework concerning equalities is the Equality Act, which became law in October 2010. It replaces previous legislation (such as the Race Relations Act 1976 and the Disability Discrimination Act 1995) and ensures consistency across the equality agenda. It bans unfair treatment and helps achieve equal opportunities in the workplace and in wider society.

Equalities law includes new powers to outlaw discrimination on the grounds of religion and belief in relation to goods and services, and creates a duty on public authorities to promote equality of opportunity between men and women. It will also facilitate the introduction of rules to prohibit discrimination in relation to goods and services for lesbian, gay and bisexual people.

Mainstreaming the promotion of equality requires a systematic process of identifying issues and integrating equality and diversity into all aspects of planning, implementation, monitoring and evaluation. It involves identifying lessons learned, promoting and disseminating good practice in equal opportunities and creating a culture of continuous improvement.

Promoting equality plays a fundamental role in all Priority Axes within this programme. The guiding principle is that all policies, programmes and services should be designed, developed and monitored with London's diversity in mind, and should proactively tackle barriers to economic participation and success. The ERDF Programme will also actively promote equality amongst all the agencies it works with in order to encourage wider engagement with the principles of equality and diversity beyond the Programme itself.

Objectives

With regard to equalities and diversity issues, the Programme will seek to:

- 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.

5.11 Programme design and development

Equality and diversity needs to be integrated into the design, development and delivery of the programme in order to identify both horizontal and vertical activities that will need to be supported through the delivery of the Programme. This will help ensure that barriers to participation and opportunities for targeted action are considered and integrated into the overall delivery mechanism of the programme.

Equality and diversity issues should be integrated into all aspects of project planning and implementation, including monitoring and evaluation. Projects will be assessed on whether they have demonstrated that they have actively considered the promotion of equality, including issues such as how:

- promotion of equality has been part of the design of the project
- positive action will be implemented within service delivery
- the project will identify and meet the needs of women, disabled people and black, Asian and minority ethnic communities, taking into account as far as possible the finer grained targeting of communities in particular need of support
- issues of equality and diversity would be challenged, monitored, reviewed and evaluated.

Projects will be required to demonstrate a clear understanding of target groups within the geographic area or communities on which they are focussed, using relevant demographic baseline data.

We are particularly keen that projects assist women entrepreneurs, disabled entrepreneurs and black, Asian and minority ethnic entrepreneurs as these groups face specific barriers to setting up and developing small businesses.

Monitoring data may be expected to include gender, disability status and the breakdown of ethnic minority groups.

Projects that propose to work solely with SMEs that are owned by women, disabled people or a single culture or ethnicity (defined as having a more than 50 per cent share in the company) will need to justify this by referring to research, consultation results or experience which indicates that such targeting is appropriate for their target communities or areas. All projects will need to ensure they comply with relevant equal opportunities legislation.

If a project is proposing to work with all SMEs, it will need to show how its work is likely to impact on each target group, what specific barriers exist for individual groups and how it will address these. When referring to black, Asian and minority ethnic groups the project will need to be specific about the particular cultural communities that exist in their geographical area or sector. A clear understanding of the diversity of the black, Asian and minority ethnic communities they are focussing on, the barriers they face and which of these communities they will therefore target will be necessary.

Projects will be required to show how equality and diversity issues are being integrated in developing and implementing the project. This is likely to include ensuring the management body is appropriately representative, how a client-centred approach to decision-making will be fostered, and how accessible the project is to disabled people, women and people from the cultural backgrounds they are targeting. Projects will need to illustrate how they will monitor the impact of their approach to promoting equality in their evaluation process, and how they will address any issues identified through monitoring.

The 2007-2013 Programme's overall equalities targets are 35% BAME, 34% Women and 5% Disabled. These targets will be adjusted at programme and project level to reflect equalities groups' representation in various sectors.

The Equality impact assessment of the Operational Programme recognises that the Programme has the potential to address the needs of equalities groups and communities that live in the most deprived urban areas of London, who bear disproportionate social and economic costs, and are not able to access many potential compensatory funding regimes. It states targets for equality groups have to be designed according to the area where the programme/projects will be delivered, in order to allow for a tailor made approach to local conditions. The Operational Programme will also take into account the diverse profile of BAME groups; in London, there are particular ethnic groups with the BAME category within that have specific requirements for support.

Through project specification and good procurement practices, the London 2007-2013 Operational Programme will ensure that gender equality is promoted throughout its programmes and projects

5.13 Programme Delivery

In order to ensure effective implementation of the cross cutting themes, they will be integrated into the prospectus and bidding guidance. This should ensure that the Programme delivers both horizontal and vertical activity for the cross cutting themes. The cross-cutting themes will be considered and addressed at every stage of Programme development This will enable them to contribute fully to the Programme's aim of driving forward sustainable economic growth in London.

Programme level Equalities targets have been set, applying to those activities where such measures are relevant. These targets differ from the London European Social Fund (ESF) targets because the ERDF Programme focuses on working with SMEs, whereas the ESF programme focuses on working with individuals. These two different beneficiary groups have distinctly different baseline make-up, and as such the targets need to take account of this baseline data.

For example the percentage of SMEs majority owned by women is 16.7%. This figure has informed the target for supporting SMEs majority owned by women, set at 34%.

Part of this process will require the identification of Programme level indicators and appropriate targets to ensure that activities to deliver the aims and objectives of the cross-cutting themes are fully considered, alongside Programme outputs during the appraisal process. This will demonstrate the importance of the cross-cutting themes to the Programme and will reward projects that fully integrate them into their activity.

In order to ensure that projects have a high level of understanding of the cross cutting themes there will be a capacity building programme to raise awareness and understanding among staff and organisations including: what they are; how they can be integrated into project activity and the benefits they bring to projects, their beneficiaries and the Programme. The programme will emphasise the significance of the cross cutting themes and the contribution they will make to the long-term success and sustainability of the Programme.

5.14 Appraisal Process

The cross-cutting themes will have a specific section in the appraisal process to ensure that all projects have considered these themes during the development of their application. This will include incorporation of the themes into project design and development, project delivery and project monitoring.

5.15 Project Level Delivery and Monitoring

Projects may require qualitative and/or quantitative indicators, with appropriate targets for each cross-cutting theme to demonstrate how the project will contribute to each theme. This will ensure that activity relating to the cross-cutting themes is included in the project's delivery plan and will enable projects to measure, report and evaluate this activity.

Monitoring of the cross cutting themes will be included as part of the wider project monitoring process under the programme, and projects will, as a result, be asked to provide demonstrable evidence to support their achievements.

5.16 Programme Evaluation

As part of the overall Programme evaluation process there will be a specific section to evaluate the success of the cross-cutting themes. This will look at areas such as: analysis of a project's understanding of the cross-cutting themes; how each project has integrated the cross cutting themes into its delivery activity; the achievement of cross-cutting theme objectives and how the cross-cutting themes have ultimately contributed to the overall success of the Programme.

6. FINANCIAL ALLOCATIONS

Table 6.1 financial allocations by year

Year by source for the programme in Euros

Year	ERDF	Total
2007	€24,466,274	€24,466,274
2008	€24,955,599	€24,955,599
2009	€25,454,711	€25,454,711
2010	€25,963,806	€25,963,806
2011	€26,483,082	€26,483,082
2012	€27,012,743	€27,012,743
2013	€27,552,998	€27,552,998
Grand Total 2007-2013	€181,889,213	€181,889,213

Financial Allocation

The budget for the ERDF programme has been apportioned taking account of EU, national and regional policy and priorities, the aims and objectives of the programme, and the rationale provided in the socio-economic analysis. Other key considerations include the likely scale of costs identified in activities for each of the Priority Axes and the contribution that each Priority Axis will make to creating and safeguarding jobs and employment. The expenditure profile of the previous programme, and the likelihood of appropriate match funding being available have also been taken into account.

The budget was updated in October 2012 following the interim evaluation of the ERDF programme and taking account of known pipeline projects. It is likely that a further revision will be required prior to programme closure.

The Programme allocation to Priority Axes 1 and 2 are 21% and 30% of the budget respectively. These Priority Axes will typically support less tangible outcomes than Priority Axis 3. Priority Axis 3 will support more physical outcomes that complement the benefits of the wider activities supported by Priority Axes 1 and 2 and will therefore catalyse further change in the London economy.

Priority Axis 3 will play a key role in integrating mitigation and adaptation to climate change through economic development activity by piloting demonstration projects that support and develop low and zero carbon technologies. Addressing climate change is a top priority for London. The level of funding allocated to Priority Axis 3 is intended to facilitate change in key areas of London, leading by example in mitigating and adapting to climate change. A significant element of the Priority 3 funding is allocated to the JESSICA financial engineering instrument.

The allocations to the three Priority Axes are complementary. Priority Axis 1 supports the initial stages of research and networking. Priority Axis 2 supports business development and networking. Priority Axis 3 supports low carbon, energy efficiency demonstration projects that support the development of employment areas, with exemplar environmental performance, in specific areas of high deprivation identified through the

regional spatial strategy, so helping deliver an increased level of tangible outcomes from activities supported by Priority Axes 1 and 2.

The areas that will be supported through Priority Axis 3 will be areas not receiving Olympics infrastructure funding. Indeed, ERDF funding may help avoid a large gap in outcomes opening up between those areas not benefiting from Olympics infrastructure funds and those which are benefiting.

In the 2000-2006 programme 42% of funding was invested in employment areas, 41% was invested in businesses and 15% was invested in people. As the 2007-13 Programme is not supporting people-related activities, such as community economic development, a split of 51% (Priority Axes 1 and 2), related to support for business, and 47% (Priority Axis 3) related to development of employment areas has been proposed. This split was considered appropriate so that the programme could provide the necessary level of funding to stimulate business development and activity in deprived areas and create the necessary high quality employment sites that are needed in these areas. This combination of activities will allow the Programme to stimulate business activity in these deprived areas and provide employment sites to accommodate that activity whilst attracting other businesses to the area.

2% of the funding has been allocated to Technical Assistance. This is within the 4% maximum budget allowed by the EC regulations, and is considered appropriate to support the tasks of implementation, development and evaluation of the 2007-13 and 2014-20 programmes.

Priority Axes 1 and 2 are allocated 0.6% of the overall funding for 'experimental' projects.

The London ERDF programme expects to obtain around 80% of the match funding from public sources.

It is expected that 20% of the match funding will be provided from private sources across all Priority Axes. The private sector will be involved in the delivery of some of the key indicative activities within these priorities, and it is therefore considered appropriate that a degree of private match funding should be provided. The economic climate has also led to the withdrawal of public sources of funding.

Financial Plan of the Operational Programme giving, for the whole programming period, the amount of the total financial allocation of each fund in the Operational Programme, the national counterpart and the rate of reimbursement by Priority Axis (see table)

Payments are made as reimbursements of expenditure actually paid out according to the following plan: the following table has been updated.

	a	b	c	d	e	f		
	Community Funding (a)	National counterpart (b) = (c)+(d)	Indicative breakdown of the national counterpart		Total funding (e) = (a)+(b)	Co-financing rate (f) = (a)/(e)	For information	
			National Public funding (c)	National Private funding (d)⁸⁴			EIB contributions	Other funding⁸⁵
Priority Axis 1	€ 38,764,768 Of which €193,133 for experimental projects ⁸⁶ €38,571,635 for mainstream projects	€ 38,764,768 Of which €193,133 for experimental projects €38,571,635 for mainstream projects	€ 29,105,260 Of which €193,133 for experimental projects; €28,912,127 for mainstream projects	€9,659,508	€ 77,529,536	50%	0	N/A
Priority Axis 2	€ 54,240,973 Of which €865,496 for experimental projects €53,375,477 for mainstream projects	€54,240,973 Of which €865,496 for experimental projects; €53,375,477 for mainstream projects	€ 29,803,542	€24,437,430 Of which €865,496 for experimental projects; €23,571,934 for mainstream projects	€108,481,945	50%	0	N/A
Priority Axis 3	€85,526,666	€85,526,666	€82,929,666	€ 2,597,000	€171,053,332	50%	0	N/A
Priority Axis 4	€3,356,806	€3,356,806	€3,339,814	€ 16,992	€ 6,713,612	50%	N/A	N/A
Total	€ 181,889,213	€ 181,889,213	€ 145,178,283	€ 36,710,930	€ 363,778,426	50%	N/A	N/A

⁸⁴ To be completed only when Priority Axes are expressed in total costs.

⁸⁵ Including national private funding when priority axes are expressed in public costs

⁸⁶ Based on actual spend of projects; likewise, for Priorities 2.

7. Coordination

7.1 Coordination between European Regional Development Fund (ERDF) and European Social Fund (ESF)

With reduced financial resources for Structural Funds for 2007-13, compared to 2000-2006, and in order to maximise the effectiveness with which these reduced funds are used, London needs to ensure an integrated approach to the ERDF and ESF programmes.

The ESF 2007-13 Operational Programme for England, has been drafted by the Department for Work and Pensions (DWP), the English ESF Managing Authority. This is a national strategy that provides a framework for the investment of the European Social Fund in England during the next seven years. The Greater London Authority acts as an Intermediate Body for ESF in London.

GLA's European Programmes Management Unit is accordingly responsible for both the ERDF Operational Programme and developing and implementing the London ESF framework; which was first drafted in 2007 and subsequently revised and endorsed by the London ESF Regional Committee in 2010 and 2012. The Framework sets out delivery of ESF funded activities at a regional level both adding value to London employment and skills priorities and contributing to the objectives of the ESF Operational Programme for England.

London's ERDF and ESF Committee meetings are held on the same day and have a shared Chair, secretariat, and some overlap of membership.

Marketing and publicity actions will be coordinated with the ESF programme where possible to help ensure a coherent message about the achievements of the Structural Funds can be disseminated.

7.2 Regions for Economic Change

On 8 November 2006 the European Commission published a communication on 'Regions for Economic Change' (REC). This instrument is aligned to the Lisbon and Gothenburg agendas and its objective is to stimulate economic modernisation and strengthen the competitiveness of Europe by encouraging exchanges of experience and good practice between European regions and cities.

London has since participated in the annual Regions for Economic Change conferences, and submitted projects each year for the annual 'Regiostars' awards.

7.3 Seventh Framework Programme for Research, Technology Development (FP7)

FP7 is the EU's main instrument for funding research in Europe; it brings together all research-related EU initiatives under a common framework and is a key driver in helping to achieve the Lisbon Strategy. FP7 is made up of four main blocks of activities forming four specific programmes: cooperation, ideas, people and capacities. There is also a fifth programme relating to nuclear research.

FP7 places increased emphasis on research that is relevant to the needs of European industry. This provides an opportunity for complementarity with activities under the

London ERDF programme particularly under the co-operation theme. The co-operation theme encourages industry-academia partnerships in areas such as food, energy, the environment and information and communication technologies; this will complement ERDF activities, particularly those supported under Priority Axes 1 and 2.

FP7 has latterly been known as Horizon 2020.

7.4 Technology Strategy Board

The Technology Strategy Board (TSB) is responsible for development of a coherent UK-wide strategy for technological innovation and to deliver a programme of Government financial support to encourage business investment in, and use of technology across all sectors of the UK economy. Where Structural Funds interventions aim to promote innovation and knowledge transfer, they will also seek to achieve alignment with national priorities and maximise the benefits of collaborating with TSB supported programmes.

7.5 Sustainable Development

The updated Sustainable Development Strategy, adopted by the European Council on 15-16 June 2006, includes reference to co-ordination of EC co-financing between ERDF and ESF programmes and other EU policies and funding instruments. The main reference is in Point 25 which states: "In order to ensure that EU funding is channelled and used in an optimum way to promote sustainable development, Member States and the Commission should co-ordinate to enhance complementarities and synergies between various strands of Community and other co-financing mechanisms, such as cohesion policy, rural development, LIFE+, research and development (RTD), the Competitiveness and Innovation program (CIP), and the European Fisheries Fund (EFF).

8. London 2007-13 ERDF Operational Programme Implementing Provisions

8.1 Regulatory Context

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

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

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

8.2 Managing Authority, Certifying Authority, Audit Authority and Intermediate Bodies.

Managing authority: Role and Functions

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

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

The MA for this OP is the Secretary of State for Communities and Local Government (SSCLG). The address is Eland House, Bressenden Place, London SW1E 5DU, England, United Kingdom. The functions of the MA not entrusted to an intermediate body are carried out by officials of the Department of State headed by SSCLG (the Department for Communities and Local Government) within the ERDF Programme Strategy and Co-ordination (PSC) Division. The MA is functionally independent from the Certifying Authority and Audit Authority.

Article 59(2) Intermediate Bodies: Roles and Functions

Article 59(2) authorises the Member State to designate one or more intermediate bodies to carry out some or all of the tasks of the managing or certifying authority under the responsibility of that authority. The Secretary of State, for the UK Government, has designated one intermediate body (hereafter referred to as the A 59(2) body) for this OP. The A59(2) body will be the Greater London Authority (GLA), established under the Greater London Authority Act 1999 ("the GLA Act").

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

- (a) ensuring that operations are selected for funding in accordance with the criteria applicable to the OP and that they comply with applicable Community and national rules for the whole of their implementation period.
- (b) verifying that the co-financed products and services are delivered and that the expenditure declared by the beneficiaries for operations has actually been incurred and complies with Community and national rules; verifications on-the-spot of individual operations may be carried out on a sample basis in accordance with the detailed rules to be adopted by the Commission in accordance with the procedure referred to in Article 103(3);
- (c) ensuring that there is a system for recording and storing in computerised form accounting records for each operation under the OP and that the data on implementation necessary for financial management, monitoring, verifications, audits and evaluation are collected;
- (d) ensuring that beneficiaries and other bodies involved in the implementation of operations maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation without prejudice to national accounting rules;

- (e) ensuring that the evaluations of OPs referred to in Article 48(3) are carried out in accordance with Article 47;
- (f) setting up procedures to ensure that all documents regarding expenditure and audits required to ensure an adequate audit trail are held in accordance with the requirements of Article 90;
- (g) ensuring that the certifying authority receives all necessary information on the procedures and verifications carried out in relation to expenditure for the purpose of certification;
- (h) guiding the work of the Local Management Committee (LMC) and providing it with the documents required to permit the quality of the implementation of the OP to be monitored in the light of its specific goals;
- (i) drawing up and, after approval by the LMC, submitting to the Commission the annual and final reports on implementation;
- (j) ensuring compliance with the information and publicity requirements laid down in Article 69;
- (k) providing the Commission with information to allow it to appraise major projects.

The Article 59(2) body is also responsible for ensuring that revenue generating projects are supporting in accordance with Art 55.

The A 59(2) body is responsible for providing a secretariat function to the LMC and making administrative arrangements for the performance of the MA tasks. The A 59(2) body carries out delegated MA tasks in accordance with the management and control system established under Article 58 and guidance and directions issued by the MA. The MA will provide suitable training.

Concerns about the performance of functions by the A59(2) body, whether relating to the standard of performance or other matters, may be addressed in various ways. The MA is empowered to issue directions relating to the exercise of the MA functions. Directions may require functions to be exercised in a specified manner or place restrictions on the way in which they are carried out.

The Secretary of State, for the UK Government, may withdraw the A 59(2) body's designation as an intermediate body, taking back full responsibility for the performance of MA tasks, or may vary the allocation of tasks (taking back or changing the scope of specified tasks). The Secretary of State may entrust tasks to a different body designated under Article 59(2). The Secretary of State will consult the A59(2) body before deciding to take such steps and will inform the Commission of the action that has been taken.

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

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

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

The reserved tasks include:

- i. Providing guidance and instruction, as appropriate, on the interpretation of the rules and criteria contained in the Structural Funds Regulations and in documents issued by the Commission over the programming period in relation to the ERDF;
- ii. Providing the contractual terms on which ERDF support is to be given, including, where relevant, state aid advice;
- iii. Determining and issuing national eligibility rules;
- iv. Providing guidance and instruction, as appropriate, on the management and control framework, accountancy rules to be followed by grant beneficiaries and others involved in with the implementation of operations, systems to be used for the maintenance of accounts and the other records, information and publicity requirements, including monitoring, and any other matters relating to the management and of the OP as necessary;
- v. establishing written standards and procedures for verifications undertaken by the A 59(2) body in compliance with Article 13.2 of Commission Regulation 1828/2006, and obtaining assurance that the monitoring and verification activities are adequately carried out in accordance with that regulation;
- vi. prescribing the information to be provided to the Certifying Authority in relation to expenditure verification and verification procedures, the form in which this information is to be provided and how frequently it is to be provided;
- vii. being a member of the LMC;
- viii. receiving evaluations, annual and final implementation reports and submitting them to the Commission;
- ix. assisting as necessary with policy and technical support for the appraisal of major projects and the notification required for appraisal by the Commission;
- x. laying down and operating a mechanism for the payment of ERDF resources;
- xi. ensuring that where, in the exercise of functions entrusted to it as an intermediate body, the A59(2) body has awarded grant for one of its own projects, resulting in the A59(2) body becoming a final beneficiary, the A59(2) body takes such steps to cease, suspend, reduce or recover ERDF funding as the A59(2) body would be expected to take if the grant beneficiary were a separate third party.

A 59(2) Bodies: Organisation

The A 59(2) body has made its own administrative arrangements for the performance of the MA tasks, taking account of guidance issued by the MA. The principle of separation of functions is adhered to in accordance with Article 58(b). In managing this OP, the A 59(2) body is required to have due regard to potential conflicts of interest and a procedure for ensuring that they are avoided.

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

Certifying Authority: Role and Functions

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

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

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

Audit Authority: Roles and Functions

The Audit Authority (AA) for this OP is the Secretary of State for Communities and Local Government. The address is Eland House, Bressenden Place, London SW1E 5DU, England, United Kingdom. The functions of the AA are carried out by officials of the Department of State headed by SSCLG (the Department for Communities and Local Government) who audit the public expenditure of the Department under the responsibility of SSCLG and who work in the Internal Audit Service of the Department, a separate unit within the Department's Finance Directorate from those performing CA tasks. The functional independence of the audit services will ensure that the principle of separation of functions is adhered to in accordance with Article 58(b).

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

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

[when a common system applies to several OPs, the information referred to in point (i) may be grouped in a single report, and the opinion and declaration issued under points (ii) and (iii) may cover all the OPs concerned];

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

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

Management and Control: description of systems

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

8.3 Partnership and Committee Structure

General

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

The Mayor of London has organised a partnership to cover the preparation of the OP with a wide variety of national, regional and local authorities and bodies, which are competent to contribute towards the aims, objectives and contents of the OP.

Competent authorities and bodies include:

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

Local Management Committee (LMC)

In accordance with Article 63, the Member State shall set up a Programme Monitoring Committee, known at OP level as the Local Management Committee, within three months from the date of the notification to the Member State of the Commission decision approving the OP. The membership and role of the LMC reflects the strategic nature of the prescribed tasks of the LMC set out in Article 65.

Reflecting the principle of partnership, the membership of the LMC is drawn from representatives of the bodies of the regional partnership organised under Article 11. It reflects national, regional, local and sectoral interests in the OP, and aims to be balanced in terms of gender. At its own initiative, or on request from the LMC, the Commission may participate in an advisory capacity. Where the European Investment Bank or the European Investment Fund are contributing to the programme, they may be represented in an advisory capacity.

The chairperson of the LMC is the Mayor of London or his/her representative. The MA has a representative as a member of the LMC.

Duties of the Local Management Committee

The LMC has drawn up and agreed its own rules of procedure. These procedures are publicised and made available on the programme website. The MA representative, as a member of the LMC, will have a role in ensuring the rules of procedure are robust, are designed to ensure delivery and contain all appropriate checks and balances.

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

The MA has approved the rules of procedure in accordance with Article 63(2).

Sub Committees and Working Groups of the LMC

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

8.4 Management and control system

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

This ensures that Community funds are used efficiently and correctly and that assistance is managed in accordance with all applicable Community rules and in accordance with the principles of sound financial management. The detailed requirements set out in the Structural Funds Regulations will be observed throughout the period of the programme. The A 59(2) body will propose a detailed management and control system which meets the requirements of Article 58. The proposals will be reviewed by the Secretary of State, for the UK Government, who will set up the system in accordance with the documents that describe the system in its final form. The AA will assess the system and give an opinion on compliance with Articles 58, 59 and 60 prior to its submission to the Commission in accordance with Article 71.

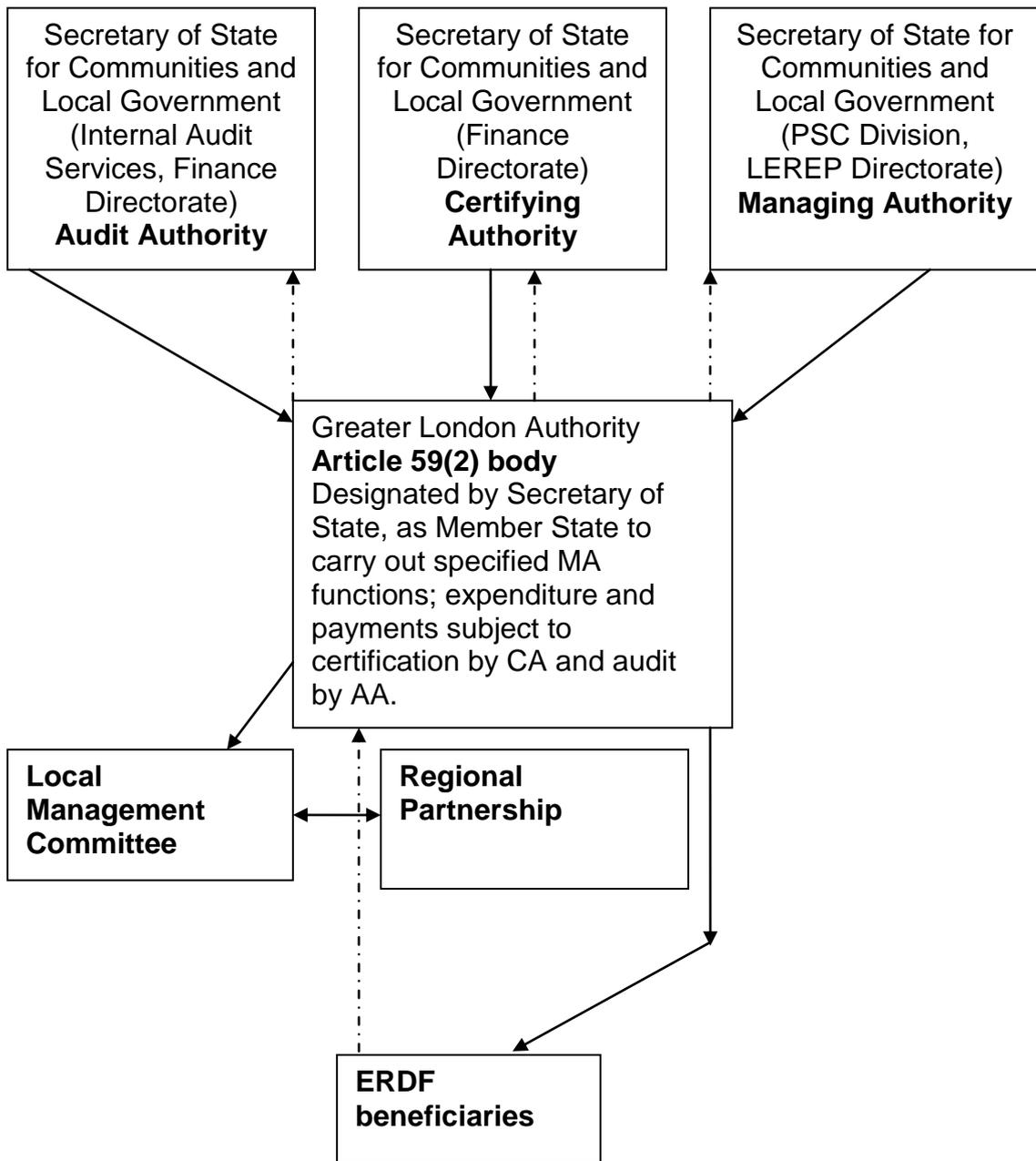
The organisation structures for ensuring sound management and control are set out below.

Diagram 1 illustrates the relationship between DCLG and the GLA.

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

Diagram 3 illustrates the separation of functions within the Article 59(2) body.

Diagram 1 - Management and Control System for ERDF Regional Competitiveness programmes in London



The direction of the solid arrow denotes the direction of management and control.

The dotted arrows denote the direction of accountability.

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

(The direction of the arrows denotes reporting lines)

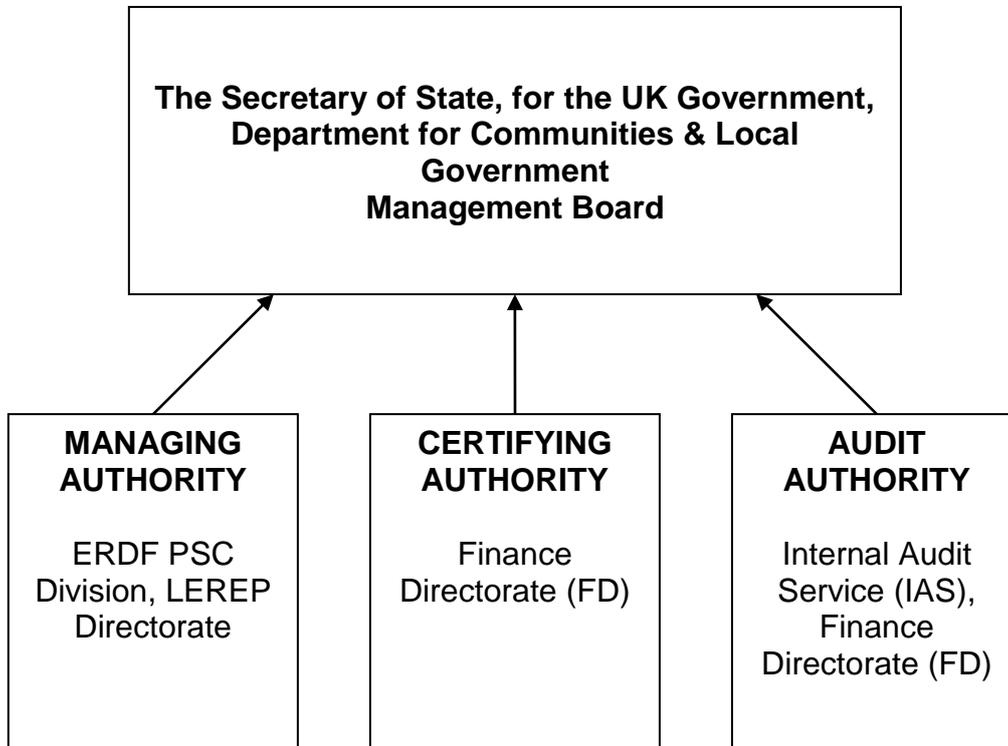
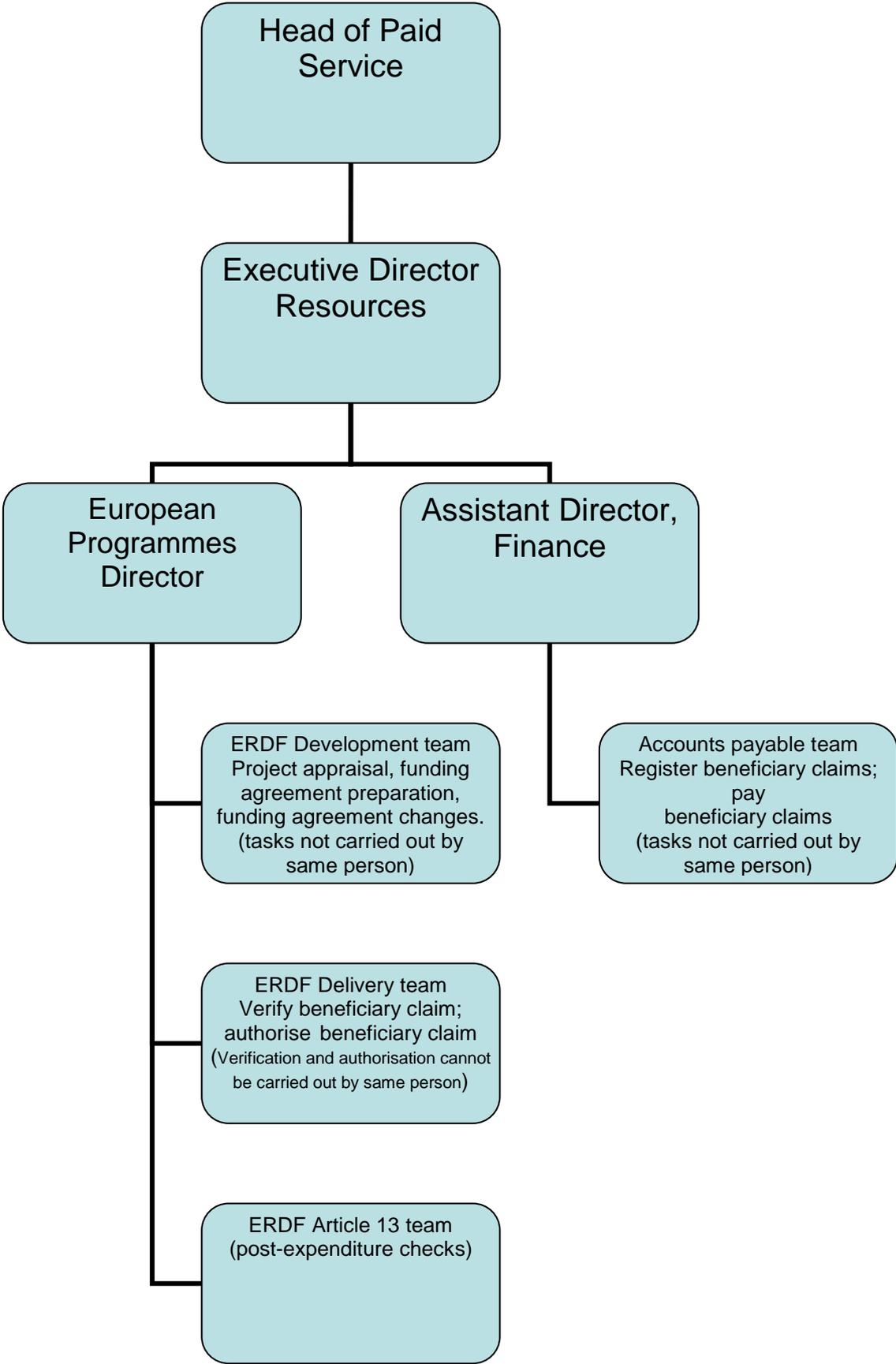


Diagram 3 - Separation of functions within the Greater London Authority.



Proportionality

The proportional control arrangements set down in Article 74 will not apply to this programme.

Global Grants

The Member State or the MA may entrust the management and implementation of a part of an OP to one or more intermediate bodies (A42 bodies), designated by the Member State or the MA, including local authorities, regional development bodies or non-governmental organisations, in accordance with the provisions of an agreement concluded between the Member State or the MA and that body.

The Secretary of State, for the UK Government, does not have any intention to designate any A 42 body for this OP.

Selection of operations for ERDF support

The LMC is responsible for considering and approving the criteria for selecting the operations financed under the programme. The A 59(2) body is responsible for putting forward proposals to the LMC for selection criteria. The role of the LMC is outlined in section 8.3 of these Implementing Provisions.

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

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

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

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

Non-competitive selection: where a single project sponsor (or perhaps two or more) is either selected as appearing to be the only suitable and capable vehicle for delivering a specific operation or set of programme targets or outputs and invited to submit an application for financial assistance; or applies for financial assistance on its own initiative for the support of an operation or a set of targets or outputs that appears to meet a priority or objective of the OP.

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

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

8.5 Computerised exchange of data

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

8.6 Monitoring arrangements and systems

General

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

Monitoring tasks of the MA both in relation to the OP as a whole and to individual operations will be carried out by the A 59(2) body, which will work with the LMC. In order to assist the LMC to discharge the tasks set out in Article 65, the A 59(2) body will provide updates on the progress of the OP in meeting its targets.

Monitoring by the MA and the A 59(2) body under Article 60(b) will be carried out in accordance with Article 13 of Commission Regulation 1828/2006.

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

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

Annual reports and final report

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

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

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

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

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

8.7 Evaluation arrangements and systems

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

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

In accordance with Article 48(3), during the programme period, the Secretary of State, for the UK Government and/or the A59(2) body, will carry out evaluation linked to the monitoring of the OP, in particular where that monitoring reveals a significant departure from the goals initially set or where proposals are made for the revision of OPs, as referred to in Article 33. The results will be sent to the LMC and to the Commission.

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

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

8.8 Financial Implementation

Financial contributions by the Funds

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

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

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

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

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

Differentiation of rates of contribution

In accordance with Article 53(1), the contribution from the Fund at the level of the OP will be calculated with reference to total eligible expenditure including public and private expenditure, and will be subject to the ceilings set out in Annex III to Council Regulation 1083/2006.

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

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

Technical Assistance

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

The LMC has approved a plan for the use of Technical Assistance during the lifetime of this OP, which was sent to the Commission for information. The Technical Assistance plan will be kept under review and may be changed, subject to the agreement of the LMC. However, the amount allocated will not exceed the 4% limit set down in Article 46.

Community budget commitments

Article 75 provides that the Community budget commitments in respect of operational programmes shall be effected annually for each Fund and objective during the period between 1 January 2007 and 31 December 2013. The first budget commitment shall be made before the adoption by the Commission of the decision approving the OP. Each subsequent commitment shall be made, as a general rule, by 30 April each year.

De-commitments

Provisions and procedures relating to de-commitment are laid down in Articles 93, 94, 95 and 96.

8.9 Financial Flows and payments

General

In setting up the system for managing and controlling the payment and expenditure of the ERDF contribution, the Secretary of State, as Member State, will: (a) observe all relevant requirements of the Structural Funds Regulations and these Implementing Provisions; (b) apply the standards of management and control generally applicable to the handling and expenditure of UK public funds; and (c) follow such general guidance and instructions as the UK Government and the Commission may provide from time to time on the management of European Community funds. The MA and the CA will operate the system according to the same requirements and standards, and the A 59(2) body will be required to do so, so far as relevant.

Financial Flows

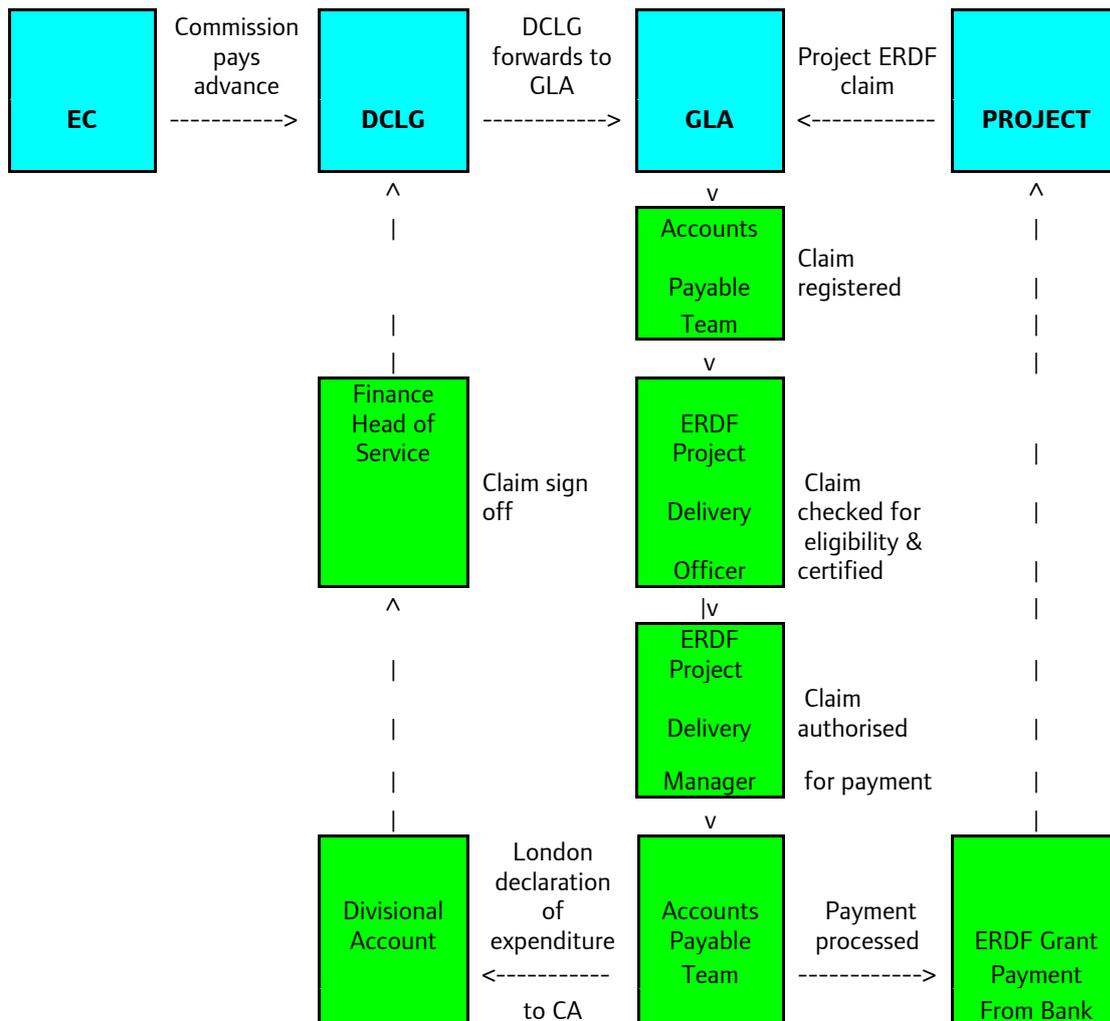
Financial flows will operate in accordance with the Structural Funds Regulations and the following procedures:

The A 59(2) body will be responsible for making offers of ERDF grant to persons responsible for selected operations. Offers of ERDF support will require grant recipients to comply with EC and national rules on eligibility of expenditure and with the requirements of the Public Procurement Regulations (which implement EC public procurement directives) or the need for competitive tendering where the directives do not apply.

Operations will make declarations of interim claims expenditure to the A 59(2) body. The A 59(2) body will be responsible for verifying the validity of declared expenditure against the offer of grant and the eligibility conditions and other conditions set out in the grant offer.

The A 59(2) body will make payments for operations subject to verifying declarations of eligible expenditure. No amount will be deducted or withheld; and no charges will be levied.

Financial flow overview for 2007-13 ERDF OP



In any instances where the A 59(2) body is a direct applicant for ERDF support (i.e. wish to use ERDF resources to support an operation for which it is directly responsible), it will use a separate unit within its organisation to act as the grant recipient or project sponsor, except where Technical Assistance is being used to support the programme management tasks. This unit will not have any responsibilities in relation to the management and control of the OP. It will be functionally independent from the unit undertaking MA functions and will be required to maintain such functional independence. It will be accountable for the expenditure of the grant to the unit undertaking MA functions as though it were a separate organisation.

The MA will - with appropriate support and assurance from the A59(2) body - submit to the CA declarations of interim expenditure. These declarations will cover the aggregate of eligible payments claimed by operations. Submissions will usually be made quarterly and will be accompanied by all the necessary supporting information required to demonstrate the eligibility of expenditure under the Structural Funds Regulations, national eligibility rules, UK financial management requirements and any additional requirements of the CA.

The CA will draw up and submit to the Commission certificates of expenditure and applications for payment, in accordance with Article 78 and in the form prescribed in

Annex X of Commission Regulation 1828/2006. The CA will review all information received from the MA and the A 59(2) body under Article 61(c) (concerning procedures and verifications carried out in relation to expenditure) and from the AA under Article 61(d) (results of audits, including the annual control report). It will carry out such checks as it thinks are necessary and appropriate to satisfy itself as to the eligibility of expenditure claimed.

Payments

Payments from the Commission will take the form of: pre-financing; interim payments; payments of the final balance. Payments will be made to the UK Government and received in a Treasury Account at the Bank of England. The MA will be authorised to draw down amounts from the account for the financing of the OP.

The UK Government will make appropriate arrangements to ensure that sufficient funds are available to enable the MA to meet the A 59(2) body's declarations of eligible expenditure in advance of receiving interim payments from the Commission. Such arrangements will comply with UK Government Accounting and Budgeting requirements.

Use of Euro and conversion rates

In accordance with Article 81, all Statements of Expenditure and applications to the Commission for payment will be made in euro. Annual and final implementation reports will use the euro to report on expenditure. Amounts of expenditure incurred in sterling, in delivering operations, will be converted into euros using the monthly accounting exchange rate of the Commission in the month during which the expenditure was registered in the accounts of the CA. This rate will be published electronically by the Commission each month.

8.10 Financial Management and control arrangements

General provisions

Responsibility for providing an effective system of management and control of the OP lies with the Member State. The management and control system will comply with the requirements of Article 58 and will be subject to the reporting requirements laid down in Article 71.

Organisation

The A 59(2) body will ensure that there is an appropriate separation of functions within its organisation between the units which are responsible for the functions of the MA falling within the following broad categories:

- appraising operations and issuing and varying offers of ERDF grant;
- verification of payment claims and monitoring operations; and
- financial matters, including making payments for operations and submitting declarations of expenditure to the CA.

The MA and CA will ensure that this separation of functions within the A 59(2) body is maintained throughout the lifetime of the OP.

Accounting Systems

In order to facilitate the verification of expenditure by Community and national authorities, the MA, in exercising the function in Article 60(c), will ensure that all bodies involved in the management and implementation of the OP maintain either a separate accounting system or an adequate accounting codification capable of providing detailed and complete summaries of all transactions involving Community assistance.

Documentation

The MA and the A 59(2) body will ensure that the requirements of Article 90 regarding the keeping of available documents are complied with.

Audit

Besides being subject to the activities of the AA, audit by the Commission and audit by the European Court of Auditors, the financial control and management system will be subject to audit by the UK domestic audit authorities (the National Audit Office).

Irregularities and financial corrections

The management and control system of the OP and steps taken by the MA to ensure that it is properly adhered to by all bodies concerned in the management and control of the programme will guard against irregularities while securing that any that do occur are detected, investigated and corrected. The A 59(2) body will have a primary role in the detection, investigation and correction of irregularities (particularly by virtue of its responsibility for monitoring and verification), and will be responsible for recovering grant in appropriate cases.

The Secretary of State, as Member State, will be responsible under Article 98 for investigating irregularities and making financial corrections. The A 59(2) body will notify the MA about irregularities and steps taken or proposed to resolve them.

The MA will report to the AA any cases involving fraud. The MA will ensure that the A 59(2) body fulfils its responsibilities for the prevention, detection and investigation of irregularities and that it acts on reports prepared by the AA on any suspicion of irregularity.

8.11 Information and publicity

The MA and the A 59(2) body will ensure that information and publicity measures conform to the provisions of Article 69 of Council Regulation 1083/2006 and Articles 2 to 10 of Commission Regulation 1828/2006, to ensure the full visibility of the funds throughout the programming area.

Publicity forms an integral part of the programme strategy and the MA will work with the Art 59(2) body to ensure that the benefits of the ERDF are communicated to the wider public.

Innovative publicity activities and campaigns using print, broadcast and creative media help the Managing Authority to clearly promote and position the ERDF brand. These activities are developed proactively and implemented in collaboration with the European Commission in Brussels, the Representation Office in London and Information relays and

networks in the UK, which ensures the visibility and transparency of the funds at a local, regional and national level.

Potential project sponsors and final beneficiaries/fund recipients will be informed of funding opportunities and also the publicity requirements linked to receiving ERDF funding during the programming period.

To this end, the A 59(2) body drew up a budgeted communication plan, which was agreed by the LMC and submitted through the MA to the Commission within four months of the adoption of the OP.

The Communication plan will set out:

- the objectives of the plan and the target groups;
- activities in support of publicity and information including events, seminars and project launches, for potential applicants, partners and the wider public
- bodies or persons responsible for the implementation of the plan;
- the budget for implementing the plan; and
- evaluation frameworks for the plan.

The A59(2) body will report on progress in implementing the plan (including examples of publicity activities) to the LMC and also in the annual implementation report. The communication plan will be easily accessible and will be published on the A59(2) body's website.

Information will be provided by the relevant A 59(2) body to potential beneficiaries in accordance with Article 5 of Commission Regulation 1828/2006, including the publicity and information measures that they are required to undertake to comply with Articles 8 and 9 of that Regulation.

Project sponsors will be required to observe the publicity elements of Commission Regulation 1828/2006, especially with regard to signage, including billboards, plaques and promotional material.

Funding for publicity and communications is provided through the Technical Assistance budget for the OP. The financial table for the OP specifies the amounts dedicated to the Technical Assistance Priority Axis.

8.12 Supplementary objectives

Sustainable Development

The OP promotes the objectives of sustainable development as required by Article 17.

These objectives have been reflected in the programme strategy and objectives. The programme has been subject of a Strategic Environmental Assessment as required under Directive 2001/42/EC.

The Managing Authority will, in accordance with Article 10 of Directive 2001/42/EC, monitor the significant environmental effects of the OP in order, inter alia, to identify unforeseen adverse effects, and be in a position to undertake appropriate remedial action. This monitoring will be undertaken at three levels:-

Firstly, the Environmental Report has suggested a selection of tracking indicators that can be used to monitor the environmental performance of the area. The Managing Authority will monitor against these indicators, where appropriate, to determine changes that occur and potential relationships with programme activities. As stated in the SEA, data for the majority of these indicators can be obtained from readily available sources. Performance against these indicators will be reported in the Annual Implementation Reports.

Secondly, the effectiveness of mainstreaming Environmental Sustainability as a Cross Cutting Theme (which is described in detail in Chapter 5) will be assessed through the relevant Priority level indicators. Progress against the Priority level indicators will be reported in the Annual Implementation Reports and discussed at meetings of the LMC.

Thirdly, the Environmental Report proposes checking criteria to appraise the appropriateness of individual supported activities where they would result in a physical development. These criteria will be used, where appropriate, at project development stage so that potential adverse effects of supported activities are appropriately managed. Projects that have significant negative effects that can not be mitigated for and outweigh positive benefits will not be supported by the OP.

Procedures will be in place to detect any project with a potentially negative effect on Natura 2000 sites and other sites designated for nature conservation. These will be scrutinized by the A59(2) body in consultation with the Competent Environmental Authorities to ensure that no activities will be supported that will cause damage to designated sites. The appraisal process will also cover opportunities to strengthen the environmental aspects of projects and the guidance that is being developed will advise on how this is to be done and how it will be monitored.

The MA, LMC and A 59(2) body will be required to implement the OP having regard to the objectives of sustainable development. In particular, the selection criteria for operations, outputs and indicators will take account of the need to protect and promote environmental sustainability. This will also involve assessing the impact of operations on these objectives, on appraisal and during the course of project monitoring and evaluation.

Gender equality and equal opportunities

The OP promotes the objectives of equal opportunities and non-discrimination on the basis of race, ethnic origin, religion or belief, disability age or sexual orientation, as required by Article 16.

These objectives have been reflected in the programme strategy and priorities. The programme has been subject to an Equality Impact Screening as required by UK legislation, and to a full Equality Impact Assessment (see copy in Annex A).

The MA, LMC and A 59(2) body will be required to implement the programme having regard to the objectives of equal opportunities and non-discrimination. This will involve assessing the impact of operations on these objectives, on appraisal and during the course of project monitoring and evaluation.

Major projects

Financial assistance may be given under the OP for the support of major projects. A major project is defined in Article 39 as an operation:

- which comprises an series of works, activities or services intended in itself to accomplish an indivisible task of a precise economic or technical nature;
- which has clearly identified goals; and
- whose total cost exceeds €25 million in the case of the environment and €50 million in other fields.

When the A 59(2) body appraises a major project, it will inform the Commission before deciding to approve support under the OP and provide the information necessary for appraisal of the project by the Commission as set out in Article 40 using Annex XXI of Commission Regulation 1828/2006).

Complementarity with the European Social Fund

The MA and the A 59(2) body will work with the MA for the national ESF programme (the Department for Work and Pensions) to ensure effective co-ordination of decisions taken in the implementation of the OP and the national ESF programme.

The A 59(2) body is responsible for advising the LMC on what co-ordination with the ESF programme is necessary for meeting the objectives of the OP. The A 59(2) body will put in place appropriate communication and liaison arrangements with the MA for the ESF programme. The A 59(2) body and regional partners will consider whether a joint ERDF and ESF monitoring committee to aid co-ordination would benefit the OP.

The LMC may at any time meet jointly with any committee or group set up by the MA of the national ESF programme to discuss matters of mutual interest and to ensure effective co-ordination.

Other European funds

The geographical area covered by this OP is outside the eligible area in England to receive funding from either the European Agricultural Fund for Rural Development or the European Fisheries Fund during 2007-13. The arrangements to ensure complementarity and, where appropriate, demarcation between these funds and the ERDF, which are applicable to other English OPs, do not therefore apply to this one.

8.13 Use of Reserves

National Performance Reserve

A Member State may establish a National Performance Reserve for each of the Convergence or Regional Competitiveness objectives, consisting 3% of its total allocation for each objective. The UK Government has decided not to operate a national performance reserve for this OP.

National Contingency Reserve

A Member State may reserve an amount of 1% of the annual Convergence allocation and 3% of the annual Regional Competitiveness allocation to cover unforeseen local or sectoral crises linked to economic and social restructuring. The UK Government has decided not to operate a National Contingency Reserve for this OP.

8.14 Financial Engineering

In accordance with Article 44 of 1083/06, the ERDF may be used to co-finance financial engineering schemes for enterprises, primarily small and medium enterprises. The A 59(2) body will ensure that financial engineering operations supported by the ERDF are set up and implemented in compliance with Articles 43, 44 and 45 of Regulation 1828/06.

Any proposal to set up financial engineering instruments will have to be agreed by the MA.

8.15 State Aid

Any public support under this programme must comply with the procedural and material rules applicable at the point in time when the public support is granted. The Member State, and in particular the MA of each OP, is fully responsible for compliance of the Structural Funds operations within the programme with the EC state aid rules.

The Member State, the MA and the A 59(2) body are responsible for ensuring that all financial assistance given for operations and activities supported under the programme is compatible with the common market.

9. Approval and Admissibility Check of Operational Programme

This section contains standard text provided by the Department for Communities and Local Government (DCLG)

1. DCLG will be involved in the development of Operational Programmes as necessary on an ad hoc basis. This will include attendance at consultation events where possible.
2. More formal involvement by DCLG will begin once Operational Programmes are submitted for quality assurance and Ministerial clearance.
3. DCLG will formally submit Operational Programmes to UKREP for onward submission to the EC no later than 5 months following adaptation of the CSG
4. DCLG will be present during formal negotiations of the Operational Programme with the Commission.

European Commission

5. Following formal submission of the Operational Programme, the Commission will within 20 calendar days formally indicate to the Member State whether an Operational Programme is admissible or not. Admissibility will be decided on all the elements in Article 37 of the General Regulations
6. If an Operational Programme is considered to be admissible, the starting date of eligibility of expenditure will be the date of formal submission of the Operational Programme after adoption of the general regulation or 1 January 2007 whichever is earliest (General Regulation 1083 Article 56 (1)).
7. If an Operational Programme does not contain all the required elements of General Regulation Article 37, with the exception of the element concerning the CSG and the NSRF in Article 37 (1) b, it is not admissible. The information submitted to Member States shall include exact reasons to justify its non-admissibility.

Quality Check

8. Operational Programmes must be formally adopted by the Commission within 4 months following formal submission (General Regulation 1083/2006 Article 32.5).
9. The starting date for the calculation of deadlines for the approval of the Operational Programme is the date of receipt of an admissible Operational Programme, or if the Programme was received before the adoption to the CSG, four months from the date of the adoption of the CSG. The quality check will be based on the contribution the Operational Programme makes in respect of the achievement of the strategy laid down in the NSRF (Article 32.4) and all the elements detailed in Article 37.
10. The Commission services will have two months from the date of receipt of the Operational Programme to undertake the quality check and for requesting further information or a revised version of the Programme (General Regulation 1083/2006

Article 32 (4)). If an Operational Programme is submitted before the NSRF, the Commission services will have two months from the date of submission of the NSRF

- a. Desk officers have to proceed with the inter-service consultation within the two months.
- b. It should be noted that any request from the Commission would delay the time limit for the approval of the Operational Programme by the same amount of time taken by the Member State for providing a response.

Admissibility Checklist for Convergence and Regional Competitiveness and Employment Operational Programmes

- **Consistency of the structured elements of the OP encoded in SFC-2007 with the text of the OP presented**
- **Analysis of socio-economic situation**, strengths, weaknesses and potential
- **Description of strategy** and justification of priorities chosen
- **Description of priority axes**, including main objectives using quantified targets and indicators
- **Table with indicative breakdown by category of the programmed use of the Funds** (see Annex II Part B of the Commission Implementing Regulation)
- **Financing plans consistent with Financial perspective and with the NSRF:**
 - Table providing the annual commitment of each Fund in the Operational Programme (see table 1 in Annex XVI of the Commission Implementing Regulation).
 - Table providing, for the whole programming period, the amount of allocation of each Fund, the national contribution (public, private where appropriate), the rate of Community assistance. Contribution from the EIB and other funding for information (see table 2 in Annex VI of the Commission Implementing Regulation).
- Where relevant, information on **complementarity with other measures financed by EAFRD and EFF**
- **Implementing provisions:**
 - **Designation of authorities** (stipulated in art. 59, or in art.74 if applicable: managing authority, certifying authority, audit authority, intermediate bodies); body designated to give an opinion on the compliance of the system description when not done by audit authority (ar.71.3); body responsible for receiving

payments from the Commission; body responsible for making payments to the beneficiaries;

- Description of **evaluation and monitoring systems**
 - Description of procedures ensuring application of the **partnership principle** at all levels of Operational Programme implementation
 - Description of **procedures for mobilisation and circulation of funding** ensuring that financial flows are transparent
 - Description of **information and publicity measures**
 - Description of **arrangements for computerised exchange of data**
 - Procedures foreseen **to allocate and ensure monitoring of specific allocations**
- **Indicative list of major projects**
 - **For Operational Programmes co-financed by the ERDF:**
 - Where appropriate, information on the **approach to the sustainable urban development**
 - **For Operational Programmes providing assistance to outermost regions: specific priority axis** for assistance to outermost regions

** For the "Regional Competitiveness and Employment Objective", Operational Programmes must include justification for the thematic, geographical and financial concentration on priorities as laid down in art. 5 of the ERDF Reg. and in art. 4 of the ESF Reg.*

10. Abbreviations

BAME	Black Asian and Minority Ethnic
BIS	Department for Business, Innovation & Skills
BSSP	Business Support Simplification Programme
CCHP	Combined Cooling Heat and Power
CHP	Combined Heat and Power
CSGs	Community Strategic Guidelines
CO ₂	Carbon dioxide
DE	Decentralised Energy
DCLG	Department for Communities & Local Government
DEFRA	Department for Environment Food and Rural Affairs
DTI	Department for Trade and Industry
DWP	Department for Work and Pensions
EAFRD	European Agricultural Fund for Regional Development
EC	European Commission
EDS	Economic Development Strategy
EFF	European Fisheries Fund
EIA	Equality Impact Assessment
EIB	European Investment Bank
EIF	European Investment Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
FHE	Further and Higher Education
FP7	7 TH Framework Programme for Research and Technology Development, (latterly known as Horizon 2020)
GLA	Greater London Authority
GOL	Government Office for London
GVA	Gross Value Added
GWH	Gigawatt Hour
IMD	Index of Multiple Deprivation
IP	Intellectual Property
JEREMIE	Joint European Resources for Micro to Medium Enterprises

JESSICA	Joint European Support for Sustainable Investment in City Areas
LABS	London Area Business Survey
LDA	London Development Agency
LSDC	London Sustainable Development Commission
NRP	National Reform Programme
NSRF	National Strategic Reference Framework
NUTS	Nomenclature of Units for Territorial Statistics
NVQ	National Vocational Qualification
ONS	Office of National Statistics
OP	Operational Programme
RDA	Regional Development Agency
R&D	Research and Development
REC	Regions for Economic Change
RES	Regional Economic Strategy
SBS	Small Business Service
SEA	Strategic Environmental Assessment
SME	Small and Medium Enterprise
SEA	Strategic Environmental Assessment
SWOT	Strengths Weakness Opportunities and Threats
TA	Technical Assistance
TSB	Technology Strategy Board
UK	United Kingdom

11. Definitions

Operational Programme - document submitted by the Member State and adopted by the Commission. The Operational Programme sets out the strategy and priorities for spending structural funds in the region.

Strategic Programme Objective - is the identified need of the region and should be consistent with the priorities identified at the National Strategic Reference Framework (NSRF) and with the National Lisbon Reform Plan developed under the Lisbon process as a response to the Integrated Employment and Economic Guidelines.

Specific Programme Priorities - what the programme's priorities aim to achieve in line with the strategic programme objective. The link between the programme's specific objectives and the priority axes should be clearly established. The achievement of specific objectives should be measured by result and impact indicators as appropriate, when they lend themselves to quantification. The indicators must be achievable by the interventions carried out under the respective priority axis. The Lisbon indicators may be used for this purpose.

Priority Axes - The choice of priority axes should be justified in light of the NSRF thematic priorities and the specific objectives of the programme. The financial allocation priority axis should be justified by the programme strategy. DCLG would envisage a maximum of 3 priority axes plus an additional priority axis for technical assistance.

Output Indicators - relate to activity and are measured in physical or monetary units, for example, length of railway or motorway constructed, number of firms financially supported.

Result Indicators - relate to the direct and immediate effect on direct beneficiaries, such as improved performance, brought about by a programme. These can be physical (e.g. reduction in journey times) or financial leverage of private sector resources.

Impact Indicators - relate to longer-term impacts of the programme, but directly linked to actions taken under the programme. There might also be global longer term impacts affecting a wider population.

London's Knowledge Base - for the context of this operational programme, educational institutions and high innovation businesses constitute London's knowledge base.

Lisbon Earmarking - as set out in article 9 of the EC General Regulations, programmes under the Competitiveness objective must contribute a minimum of 75% of the programme's expenditure to activities directly related to the Integrated Guidelines for Growth and Jobs.

Opportunity Areas - London's key geographic locations where there are opportunities to accommodate large scale development to provide substantial numbers of new employment and housing, typically more than 5,000 jobs and/or 2,500 homes, with a mixed and intensive use of land and assisted by good public transport accessibility

Intensification Areas - areas that have significant potential for increases in residential, employment and other uses through development of sites at higher densities with more mixed and intensive use.

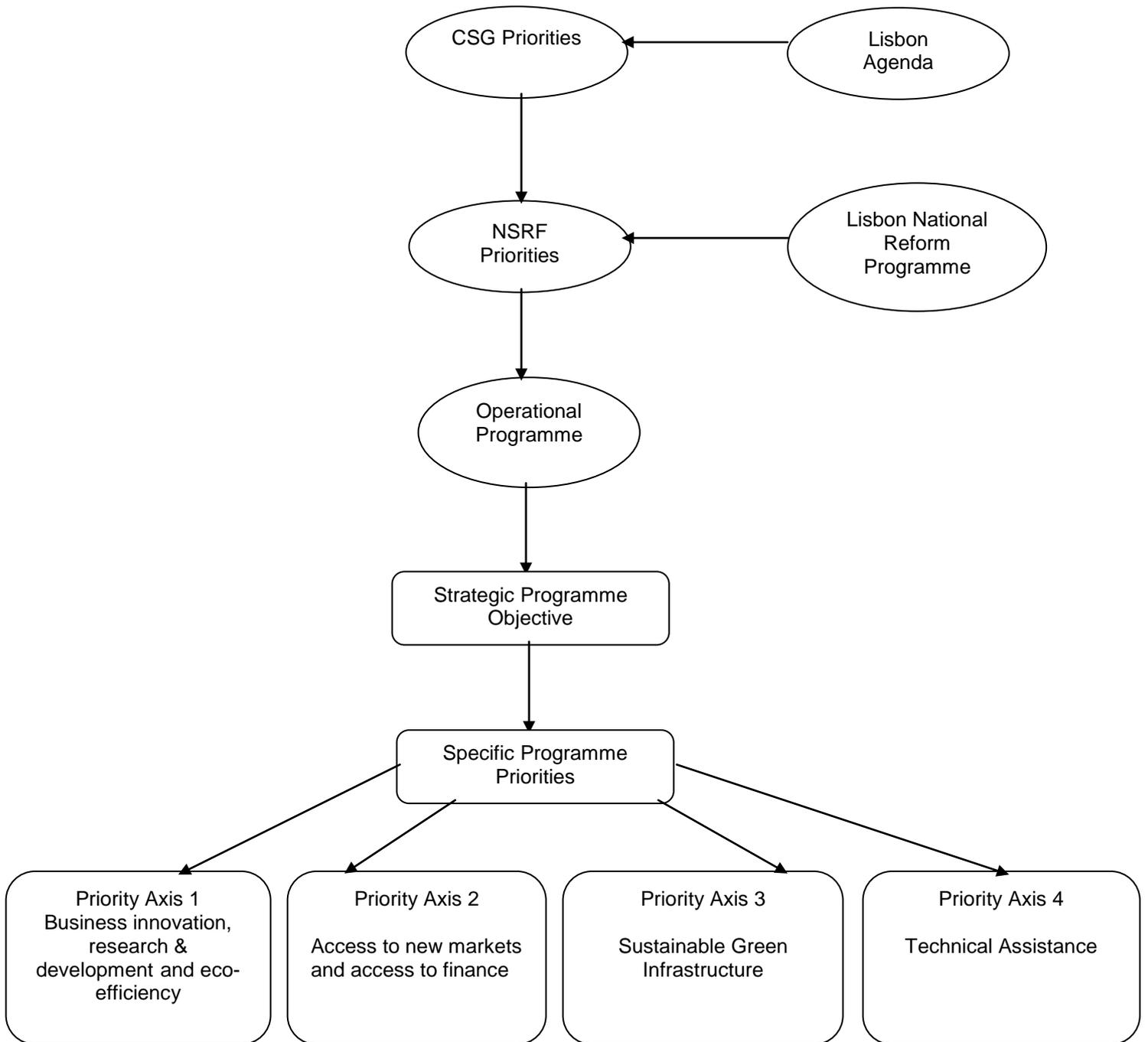
Regeneration Areas - these areas are the wards in greatest socio-economic need, defined on the basis of the 20 per cent most deprived wards in London

Photovoltaics - the direct conversion of solar radiation into electricity by the interaction of light with electrons in a semiconductor device or cell

Equal opportunities - the development of practices that promote the possibility of fair and equal chances for all to develop their full potential in all aspects of life and the removal of barriers of discrimination and oppression experienced by certain groups

Equalities groups - where not explicitly stated, this includes black, Asian and minority ethnic groups, disabled people, women, those from faith communities, older people, those who are lesbian, gay, bisexual and transgender, and other groups who may experience disparities in opportunity to realise their potential.

12. EC Cohesion Policy Flow Diagram



Note: Structure as negotiated in Regulations

13. Annexes to the Operational Programme

- A. Equality Impact Assessment
- B. Indicative list of strategies and evidence data sources which have been used in Operational Programme production
- C. London ERDF Operational Programme Support for Lisbon Objectives
- D. Ex ante Evaluation
- E. Strategic Environmental Assessment