



**THE DEPARTMENT FOR  
COMMUNITIES AND LOCAL  
GOVERNMENT**

**GOOD PRACTICE GUIDE  
FOR ENGLISH ERDF AND  
ESF PROGRAMMES 2007-  
2013**

**CASE STUDY EVALUATIONS OF  
WIDER IMPACTS OF ENGLISH  
OBJECTIVE 1 AND 2 ACTIVITIES**

**Final Report**

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**regeneris** consulting

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## 1. Executive Summary

### Background

- 1.1 The purpose of the study was to explore and identify lessons from the programme approaches and project level interventions which have been implemented through the Structural Fund Objective 1 and 2 programme in England for the period 2000-06. A particular focus was upon some of the approaches and interventions which have *worked well*, providing a fuller evidence base to inform the development of future regional economic policies and programmes. This is particularly important in light of the current consultation process on the **National Strategic Reference Framework**<sup>1</sup> and the development work on the Operational Programmes for 2007-2013 will take place between May and the end of 2006.
- 1.2 Also, the Government's PSA targets are helping to galvanise thinking around the collective impact of both EU and domestically funded programmes and the extent to which these programmes and initiatives can be more effectively integrated in order to maximise progress in tackling these challenging agendas. In the context of the forthcoming CSR, the lessons learnt will be valuable in informing Government's activities in the areas of regional economic development and area based regeneration and renewal.
- 1.3 Given the nature of the study it is not possible to provide a comprehensive assessment of the effectiveness of programme approaches and project level interventions, including what has worked particularly well or even proved unsuccessful. The report is intended therefore to offer *formative advice* (some food for thought) to partners which they should draw upon in the design and development of their new programmes, but which needless to say will need to be supplemented by advice and guidance from elsewhere.
- 1.4 The study adopted a **case study approach**, with a focus on **seven themes covering both the ERDF and ESF funds**. The themes were agreed through a process of consultation between ODPM, the Government Offices and other partners such as DWP. The focus of the case studies were: Brownfield Land and Employment Sites; Property for SMEs; Cluster Development; Knowledge Transfer; Enterprise in Deprived Communities; Workforce Development; and Worklessness and Economic Inactivity.
- 1.5 Each case study consisted of two elements: (i) a review of 2 to 3 Objective 1 and 2 programmes for each the thematic areas, selected on the basis of them having adopted interesting, innovative and/or successful approaches and activities; and (ii) a number of project reviews for each case study, ranging between 2 and 5, selected in order to provide an insight into the activities which were proving successful (subject to the availability of evidence of impacts) and the associated design and implementation issues.

### Lessons and Implications for the Operational Programmes 2007-13

- 1.6 The section presents the **headline findings** from the seven case studies, with a particular emphasis on drawing out the lessons for the next programme period. The lessons are structured around the themes within the **Strategy for Competitiveness and Employment** set out in the draft **National Strategic Reference Framework** (although some aspects of the priorities within the NSRF, such as Sustainable Development and aspects

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<sup>1</sup> Draft National Strategic Reference Framework for EU Structural Fund Programmes 2007 – 2013, February 2006, DTI (<http://www.dti.gov.uk/europe/structural.html>)

of Sustainable Communities are not covered in this report). A fuller summary is presented in Section 3 of the report, whilst the actual case studies are presented in Appendix A.

### Wider Lessons for the Programmes 2007-2013

1.7 A number of the lessons which have emerged from the thematic case studies are widely applicable to the development of the next ERDF and ESF programmes. These should be reflected in the design of the new programmes.

- **Market Failure and the Rationale for Public Sector Intervention.** The justification for interventions in the current programmes, possibly due to market failure or for distributional reasons<sup>2</sup>, tend to be implicit rather than explicit. The rationale for public sector intervention should be clearly stated in a framework that explicitly sets out the rationale of the overall strategy, as well as the individual priorities and interventions. The importance of these frameworks and the accompanying mindset is that it helps focus on those activities where the economic impact of particular intentions will be greatest. This will in turn need to be tested through the ex-ante evaluation and on-going review and evaluation
- **Strategy Alignment.** The future programmes need to be aligned closely behind, and add value to, the activities of the RDAs and their regional economic strategies. The programmes need to be designed and managed so that they have sufficient flexibility to respond to major shifts in the future. However, in seeking to improve alignment behind existing thematic and spatial economic strategies, the partners engaged in the development of the programmes need to ensure that there is an adequate evidence base to support the interventions being pursued by the RDAs. Also, the reduction in funding available through the new programmes emphasize the need for synergies and complementarity between EU funding and domestic programmes, as well as between ERDF and ESF funds.
- **Portfolio Approach.** Besides considering the types of interventions to fund, the partners engaged in the development of the programmes should also consider the balance between the risks and returns which these investments can secure. Drawing on the experiences of some of the current programmes, there is merit in pursuing a portfolio approach that mixes a few riskier investments offering the potential for significant returns/impacts if successful (often riskier due to the degree of innovation or focus on new technologies) with a concentration of resource in activities offering greater certainty of delivery and impact. In this way, if some riskier interventions prove unsuccessful this does not matter so long as the overall investment bears sufficient fruit.
- **Demand Responsiveness.** A common feature of some of the more successful interventions is their responsiveness to the identified market demand. For example, this may be in terms of developing SME property that responds to gaps in provision

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<sup>2</sup> The Treasury's Green Book states that the underlying rationale for public sector intervention '*is usually founded either in market failure or where there are clear government distributional objectives that need to be met*' (HM Treasury, The Green Book, Appraisal and Evaluation in Central Government, 2004). Market failure refers to where the market has not and cannot of itself be expected to deliver an efficient outcome and hence the proposed intervention will seek to redress this. The distributional objectives of public sector intervention are based on equity considerations and include the actions necessary to address economic or social disparities which often occur on a spatial basis.

where demand is unmet (but the private sector is not delivering for reasons of market failure). This needs to be reflected in the design of future activities where relevant.

- **Flexibility.** The more successful programmes during the current programming period have built flexibility into their management systems, drawing on a process of continual review and adjustment to investment approaches. This allows the programme to be adjusted in light of changes in policy, economic conditions or interventions that prove unsuccessful – sufficient flexibility needs to be built in the next programmes to allow them to respond in this manner.
- **Evaluation.** The current evidence base of what is working well, in terms of operation and impact, is extremely limited, in part due to most programmes not building this into their activities. The next round of programmes need to, alongside the work of the RDAs and other key partners in regional economic development, adopt a *'what works'* culture and approach that builds thematic evaluation into their overall evaluation approach. This approach to evaluation needs to be seen in addition to the formal requirements for mid term and final evaluations.
- **Unintended Consequences of Outputs Frameworks.** The need for robust and unambiguous output frameworks that can be monitored in an effective and efficient manner is well understood by partners. However, these frameworks can unintentionally direct programme and project resources in ways which are not intended. For example, the use of the 'SME assisted'<sup>3</sup> output indicator has in some instances led to 'shallower' interventions with SMEs and constrained the scope to fund more substantive interventions with businesses which could secure greater impacts. This should be borne in mind in devising the new output, result and impact frameworks.

### Thematic Lessons for Programmes Approaches and Project Interventions 2007-2013

- 1.8 Section 3 and 4 summarise the key messages which have emerged for the development of the overall programming approaches and lessons for the design of project interventions.

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<sup>3</sup> However, some programmes, such as London, have amended the definition so that 'support' consists of at least 5 days of assistance.

## 2. Introduction

### Background

- 2.1 The purpose of the study was to explore and identify lessons from the programme approaches and project level interventions which have been implemented through the Structural Fund Objective 1 and 2 programme in England for the period 2000-06. A particular focus was upon the approaches and interventions which have *worked well*, but also learning the lessons from those things which haven't worked so well.
- 2.2 The desire to learn from the experiences of the current programmes in England is clearly not an end in itself. The intention is to provide a more robust evidence base to inform the development of future regional economic policies and programmes. This is particularly important in light of the current consultation process on the National Strategic Reference Framework, which provides the UK's strategic framework for the Operational Programmes 2007-2013. The development work on the Operational Programmes will take place between May and the end of 2006.
- 2.3 Whilst the Mid-Term Evaluations and the subsequent updates of the Objective One and Two programmes provided some helpful evidence, and this has been supplemented by ad hoc thematic evaluations undertaken by some Government Offices, collectively they fall short of the evidence base that is required to inform policy development at this time. Although the ex-post evaluations will provide much more detailed information on the effectiveness of various interventions, these will not be available until well after the programmes have been completed.
- 2.4 Also, the Government's PSA targets are helping to galvanise thinking around the collective impact of both EU and domestically funded programmes and the extent to which these programmes and initiatives can be more effectively integrated in order to maximise progress in tackling these challenging agendas. In the context of the forthcoming CSR, the lessons learnt will be valuable in informing Government's activities in the areas of regional economic development and area based regeneration and renewal.

### Approach

- 2.5 The study adopted a **case study approach**, with a focus upon **seven themes covering both the ERDF and ESF funds**. The themes were agreed through a process of consultation between ODPM, the Government Offices and other partners such as DWP. The broad focus of the themes is summarised in the box below.
- 2.6 The questions posed within each theme are both wide ranging and challenging. Inevitably there is a limit to how far a qualitative study of this nature can provide comprehensive and conclusive answers to the questions posed. **The study therefore seeks to provide advice to partners on some of the emerging lessons which they should consider in designing the programmes for 2007-2013.** These lessons cover both programme and project design dimensions.

### The Seven Case Study Themes

- **Brownfield Land and Employment Sites.** Which approaches and activities to the development of land and property have been particularly successful in overcoming market failure and securing additional economic activity? Why have they been successful and what lessons can be drawn?
- **Property for SMEs.** What approaches and activities to the development of premises for SMEs have been particularly success in overcoming market failure whilst meeting the property needs of local businesses and inward investors and creating local employment opportunities? Why have they been successful and what lessons can be drawn?
- **Cluster Development.** Which Objective One and Two business support approaches and activities have been particularly successful in adding value to cluster/sector development activities and making a significant contribution to raising sub-regional and regional competitiveness? Why have they been successful and what lessons can be drawn?
- **Knowledge Transfer.** Which Objective One/Two knowledge transfer approaches and activities have been particularly successful in securing the transfer of knowledge between the 'knowledge base' and SMEs, stimulating the creation of new businesses and enhancing the competitiveness of existing SMEs, and improving regional competitiveness? Why have they been successful and what lessons can be drawn?
- **Enterprise in Deprived Communities.** Which approaches and activities have been particularly successful in encouraging enterprise and supporting the establishment and subsequent growth of businesses (including businesses with social objectives) in deprived communities, and making a positive contribution to regeneration and economic development in these areas? Why have they been successful and what lessons can be drawn?
- **Workforce Development.** Which approaches and activities funded by Objectives One and Two (ESF) were particularly effective in developing the skills of the existing workforce, both in terms of helping people develop their skills and meeting the needs of employers? Why have they been successful and what lessons can be drawn?
- **Worklessness and Economic Inactivity.** Which approaches and activities funded through Objective One programmes have been successful in assisting the economically inactive to move from welfare into work, in particular those activities which have been focused on key target groups for DWP (namely, disabled people and lone parents)? Why have they been successful and what lessons can be drawn?

2.7 Each case study consisted of two elements:

- **A review of 2-3 Objective 1 and 2 programmes,** which were judged to have adopted interesting, innovative and/or successful approaches and activities in a thematic area. The reviews were conducted through structured consultations with the Government Office staff and key partners involved in the development, delivery and management of each theme.
- A number of **project reviews,** ranging between 2 and 5, drawn from the selected Programmes in each theme. The project reviews were undertaken in order to provide an insight into the activities which were proving successful (subject to the availability of evidence of impacts) and design issues for future interventions. The

reviews were conducted primarily through structured interviews with project managers, although these were supplemented by consultations with partners where relevant.

2.8 In addition, as part of the process of selecting the programmes and projects for each case study, we consulted with the Government Offices responsible for eight of the 13 Objective 1 and 2 programmes in England. The consultations provided an opportunity to explore the progress of the programmes in the seven thematic areas and to identify approaches and activities which were felt to have worked well, innovative or achieving significant impacts. The areas included were:

- **Objective 1 Programme areas:** Merseyside and South Yorkshire<sup>4</sup>;
- **Objective 2 Programme areas:** North East, North West, West Midlands, Yorkshire and Humber, London and the South West.

The Seven Case Studies – Review of Programmes and Projects		
Case Study	Programme	Projects
Brownfield Land and Employment Sites	<ul style="list-style-type: none"> <li>Merseyside O1</li> <li>South Yorkshire O1</li> <li>North West O2</li> </ul>	<ul style="list-style-type: none"> <li>Liverpool SIAs</li> <li>Renaissance South Yorkshire</li> <li>New East Manchester Action Plan</li> <li>Central Park</li> </ul>
Property for SMEs	<ul style="list-style-type: none"> <li>London O2</li> <li>South West O2</li> <li>West Midlands O2</li> </ul>	<ul style="list-style-type: none"> <li>Hothouse</li> <li>Tamar Science Park</li> <li>Wolverhampton Science Park</li> </ul>
Cluster Development	<ul style="list-style-type: none"> <li>Merseyside O1</li> <li>South Yorkshire O1</li> <li>West Midlands O2</li> </ul>	<ul style="list-style-type: none"> <li>Sector Development Programme</li> <li>MerseyBio projects (2)</li> <li>Advanced Manufacturing Park</li> <li><i>No suitable project identified for review</i></li> </ul>
Knowledge Transfer	<ul style="list-style-type: none"> <li>South Yorkshire O1</li> <li>North East O2</li> <li>North West O2</li> </ul>	<ul style="list-style-type: none"> <li>Knowledge Starts</li> <li>Biomaterials Centre for Industrial Collaboration</li> <li>Knowledge House</li> <li>Centre for Process Innovation</li> <li>North West Knowledge</li> </ul>
Enterprise in Deprived Areas	<ul style="list-style-type: none"> <li>London O2</li> <li>West Midlands O2</li> <li>Yorkshire &amp; Humber O2</li> </ul>	<ul style="list-style-type: none"> <li>Account 3 Women's Enterprise</li> <li>East London Small Business Service</li> <li>Business Spirit projects (2), Princess Trust</li> <li><i>No suitable project identified for review</i></li> </ul>
Workforce Development	<ul style="list-style-type: none"> <li>Merseyside O1</li> <li>Yorkshire &amp; Humber O2</li> </ul>	<ul style="list-style-type: none"> <li>Skillworks</li> <li><i>No project reviewed</i></li> </ul>
Worklessness and Economic Inactivity	<ul style="list-style-type: none"> <li>Merseyside O1</li> <li>South Yorkshire O1</li> </ul>	<ul style="list-style-type: none"> <li>Liverpool LSP &amp; the Employment Action Plan</li> <li>Speke Garson JET</li> <li>Streets Ahead</li> <li>VCTrain</li> <li>ILM/TLM Project</li> </ul>

<sup>4</sup> Given that Cornwall is likely to continue to be a convergence area in the next programme period, it has less relevance to the lessons which can be drawn for the future Transitional and Objective Two areas.

2.9 The remainder of the report is set out in the following way:

- Section 3: a summary of the headline findings emerging from the case studies and key lessons for the next programme period;
- Appendix A: each of the seven detailed case studies.

### 3. Lessons and Implications for Future Programmes 2007-13

- 3.1 The section provides the **headline findings** from the seven case studies, with a particular emphasis on drawing out the lessons for the next programme period. Given the nature of the study it is not possible to provide a comprehensive assessment of the effectiveness of programme approaches and project level interventions, including what has worked particularly well or even proved unsuccessful. The report is intended therefore to offer *formative advice* (some food for thought) to partners which they should draw upon in the design and development of their new programmes, but which needless to say will need to be supplemented by advice and guidance from elsewhere.

#### Wider Lessons for the Operational Programmes 2007-2013

- 3.2 A number of the lessons which have emerged from the thematic case studies are widely applicable to the development of the next ERDF and ESF programmes. These should be reflected in the design of the new programmes.

- **Market Failure and the Rationale for Public Sector Intervention.** The case studies have demonstrated that the extent to which interventions are underpinned by a clear and robust analysis of the reasons for public sector intervention varies. The justification for interventions, possibly due to market failure or for distributional reasons, are implicit rather than explicit. Whilst this is particularly the case in justifying knowledge transfer and property interventions, it is not limited to these forms of intervention. The rationale for public sector intervention should be clearly stated in a framework that explicitly sets out the rationale of the overall strategy, as well as the individual priorities and interventions. The importance of these frameworks and accompanying mindset is that it helps focus on those activities where the economic impact of particular intentions will be greatest. This will in turn need to be tested through the ex-ante evaluation and on-going review and evaluation.
- **Strategy Alignment.** The strategic policy and organisational landscape nationally and regionally has changed significantly over the past 6 years and continues to change. This has an important bearing on the nature and shape of the programmes that will be implemented for the period 2007-13. The future programmes need to be aligned closely behind, and add value to, the activities of the RDAs and their regional economic strategies. However, in seeking to improve alignment behind existing thematic and spatial economic strategies, partners need to ensure that there is an adequate evidence base to support the interventions. The programmes need to be designed and managed so that they have sufficient flexibility to respond to major shifts in the future.
- **Portfolio Approach.** The next programmes will pursue a range of intervention types, although these will be focused more upon business competitiveness than in the previous programmes. The strategy and the supporting interventions will be informed by a thorough assessment of regional and sub-regional economic conditions. However, partners should also consider the balance between the risks and returns which these investments can secure. Drawing on the experiences of some of the current programmes, there is merit in pursuing a portfolio approach that mixes: (i) modest overall investment in interventions which are risky (often due to their degree of innovativeness or focus on emerging technologies) but offer the

potential for significant returns/impacts if successful; and (ii) the concentration of overall investment in interventions which are less risky but offer greater certainty of delivery and impact. Seen in this light, if some riskier interventions prove unsuccessful this does not matter so long as the overall investment bears sufficient fruit.

- **Demand Responsiveness.** The case studies indicate that a common feature of the more successful interventions is their responsiveness to the identified market demand. For example, this may be in terms of developing SME property that responds to gaps in provision where demand is unmet (but the private sector is not delivering for reasons of market failure), delivers training that responds to the type of training and forms of delivery that suit employers (e.g. less qualifications-orientated) and works proactively with employers to help Incapacity Claimants gain and retain work. This needs to be reflected, where appropriate, in the design of the next programmes.
- **Flexibility.** One of the common lessons from previous Structural Fund programmes is the need for the programmes to build in sufficient flexibility to respond to changes in policy, economic conditions or interventions that prove unsuccessful. The more successful programmes during the current programming period have built this flexibility into their management systems, drawing on a process of continual review and adjustment to investment approaches.
- **Evaluation.** All programmes have developed and implemented evaluation strategies, based around the statutory requirements of the mid term evaluation (and its subsequent update) and the ex-post evaluation, as well as project level evaluations. However, we were disappointed that few of the current programmes have adopted a formative thematic approach to evaluation (although there are some notable exceptions such as the North West and North East). The current evidence base of what interventions are working well, in terms of operation and impact, is limited. The next round of programmes need to, alongside the work of the RDAs and other key partners in regional economic development, adopt a *'what works'* culture and approach that builds thematic evaluation into the overall evaluation approach. This approach to evaluation needs to be seen in addition to the formal requirements for mid term and final evaluations.
- **Unintended Consequences of Outputs Frameworks.** The need for robust and unambiguous output frameworks which can be monitored in an effective and efficient manner is well understood by partners. However, these frameworks can unintentionally direct programme and project resources in ways which are not intended. For example, the use of the 'SME assisted' output indicator has arguably led to 'shallower' interventions with SMEs and constrained the scope to fund more substantive interventions with businesses which could secure greater impacts.

### Lessons for Overall Programming Approaches

- 3.3 Tale 3.1 summarises the key messages which have emerged for the development of the **overall programming approaches**. These are presented under each of the NSRF ERDF and ESF priorities. **The lessons for the design of project interventions** are not presented here, instead being summarised in the case studies presented in Section 4.

Table 3.1 Lessons for the Development of the Operational Programmes 2007-13 – Analysed by NSRF Priority	
<b>ERDF Priority One: Promoting Innovation and Knowledge Transfer</b>	
<b>Knowledge Transfer</b>	<p><b>Need for a strategic and coherent approach.</b> The body of learning accumulated around KT in recent years now needs to be placed on a clearer strategic footing. It needs to set out: the role of knowledge transfer in regional economic development; identify priority areas for investment where maximum economic change can be effected; build on existing assets &amp; opportunities within the higher education and business base; and be driven from a more sophisticated understanding of the market failures which constrain effective knowledge transfer. Future programmes of KT investment must be built upon a clear framework of investment priorities (rather than an experimental or competitive approach) which encourage long-term and intensive support to initiatives.</p>
	<p><b>Accepting Risk through a Portfolio Approach.</b> The HEI and business interface has to be a developmental one which is able to take risks and adopt a commercial, almost speculative mindset. ERDF's focus on output driven activity and its complex accounting requirements for match funding and use of income (particularly from the private sector) runs against the grain of these objectives. The pressure to generate outputs from activity militates against important developmental, market-making and culture change activities and this should be reflected in the Portfolio Approach.</p>
	<p><b>Outputs.</b> The output framework of ERDF Programmes, although flexible (there are a number of instances where new outputs have been agreed with the Commission) is still a source of frustration for delivery agencies. Knowledge Transfer impacts takes a long time to manifest themselves on the bottom line of businesses and can come in many different forms. The downstream impacts on turnover and GVA are extremely hard to predict and the causal link becomes more tenuous the longer the time horizon involved. The focus on number of SMEs assisted has had a particularly pernicious impact in some programmes as it has encouraged quantity over quality.</p>
<b>ERDF Priority Two: Stimulating Enterprise and Supporting Successful Businesses</b>	
<b>Property for SMEs</b>	<p><b>Market Failure.</b> There is a need to take a more rigorous approach to understanding market failure, the ways in which this can be tackled and opportunities to maximise limited public sector funds by leveraging in private investment (for example through the creation of new Joint Venture vehicles). This is likely to necessitate a shift in the skills and expertise required of teams at both programme and project level. This will include a greater understanding and experience of commercial development and of new (or proven) forms of public-private partnership. Most fundamentally, in making the case for investment in SME premises future programmes should ask the question: what is the rationale for intervention and could it have unintended consequences?</p>
	<p><b>Portfolio Based Approach.</b> There is a growing recognition of the need to develop a portfolio based approach to intervention, ensuring that programmes provide not only early stage incubation and flexible managed workspace but also larger workspace units and grow-on space offered on more traditional terms where these relate to the process of sector/cluster development of knowledge transfer. This not only reflects the experience of projects funded in the first half of the current programmes (in which it has been observed that there is sometimes a shortage of grow-on space for incubated or other supported companies to move into) but also the need to ensure that the full impact of these incubation schemes is realised.</p>

Table 3.1 Lessons for the Development of the Operational Programmes 2007-13 – Analysed by NSRF Priority	
	<p><b>Strategic Integration.</b> As with other areas of activity, it is vital to ensure that the support for SME premises in future Structural Fund Programmes are well aligned with RDA activity (the main source of match funding) and strategic goals in order to maximise impact. Good integration is needed both in strategic documents and operationally.</p>
<b>Cluster Activity</b>	<p><b>Scale of Resources for Cluster Activity.</b> There is a persuasive intellectual case for a large concentration of economic development resources on a few sectors/clusters, based on the argument that this could deliver the biggest impact on a regional economy. However, the evidence base on the impacts of these interventions is currently weak. Furthermore, the analysis that has led to the selection of particular clusters and the regional priorities is not in all cases hugely robust. Future programmes should be cautious in placing too much grant into cluster activity in isolation of other investments – they should be making these investments as part of a broader based approach to supporting business competitiveness.</p>
	<p><b>Spatial Levels for Interventions.</b> It is not clear that the regional level is necessarily the right spatial scale for cluster development. Sub-regions may have strengths in particular technologies, sub-sectors and sectors which are distinct from regional priority clusters. Equally, there are some sound arguments for pan-regional or even national approaches. The means have been found to accommodate these differences, such as subsuming a sub-regional cluster into a broader regional cluster or making sub-regional cluster activity the central pillar of the regional cluster. However, a degree of care will be necessary in future programmes to ensure that strongly performing sub-regional clusters continue to receive support.</p>
	<p><b>Strategic Alignment.</b> If clusters are to be supported, there should be complete strategic alignment in terms of support. The use of a single cluster programme action plan, or a set of action plans, managed by the RDA appears the most effective approach (with resources matched) providing this doesn't present barrier to accommodating sub-regional activity. However, given the limited future ERDF resources there may be a case for future programmes only supporting a <u>sub-set</u> of the regional target clusters. Also, given the evidence (albeit not quantitative) of differing impacts and success of types of cluster support, there may be a case for focus on certain types of cluster intervention.</p>
	<p><b>Attitudes to Risks.</b> Sector/cluster development involves an element of risk taking implicit in any targeting process. It is helpful to recognise that investing in clusters could be seen in a portfolio sense - a mixture of higher risk higher reward cluster activity focused on emerging technologies and investment in more traditional strengths in a region. If some cluster interventions prove unsuccessful this does not matter so long as the overall investment in all clusters bears sufficient fruit.</p>
	<p>See also the enterprise recommendations under the 'Building Sustainable Communities' priority below</p>
ERDF Priority Four: Ensuring Sustainable Development, Production and Consumption	
<b>Employment Land</b>	<p><b>Sustainability.</b> Although the current Structural Fund programmes have embraced the sustainability agenda, there are nevertheless examples of major site developments being supported by ERDF grant for which the overall sustainability of the scheme is questionable. Whilst there is a need to balance the economic and environmental impacts of site development schemes, the sustainability of a site for example in terms of its nature (greenfield/brownfield), location (eg urban centre, urban fringe) and connectivity (eg links to public transport and deprived communities) should be a</p>

Table 3.1 Lessons for the Development of the Operational Programmes 2007-13 – Analysed by NSRF Priority	
	major consideration in the decision to grant fund schemes.
	See also: knowledge transfer, enterprise and cluster development recommendations under the ‘Stimulating Enterprise and Supporting Successful Businesses’ and ‘Promoting Innovation and Knowledge Transfer’ priorities. These are relevant to the development of sustainable technologies and businesses.
<b>ERDF Priority Three: Building Sustainable Communities</b>	
<b>Employment Land</b>	<b>Alignment and Integration with RDAs Spatial and Competitiveness Priorities.</b> Future site development activity, where it occurs, needs to be integrated and aligned with the RDAs’ priorities for their regional strategic sites, spatial development and business competitiveness. There will not, in most instances, be a case for the new programmes developing distinct spatial and site development strategies which have a different emphasis or focus to those being pursued by the RDAs and sub-regional partnerships.
	<b>Market Failure.</b> Given the economic changes which have occurred in many programme areas over the last five years, the future programmes need a clearer articulation of the nature and extent of market failure and the strategic rationale for public sector intervention. In market terms, subject to specific site constraints and related issues, the need for public sector intervention will increasingly become more marginal in many locations.
	<b>Market Orientated, Portfolio Approaches.</b> The development of the site development activities of the future programmes need to more explicitly recognise the need for regional and sub-regional economies to offer a portfolio of sites and premises. This clearly needs to be evidence based, being informed by existing provision and the level and nature of the demand of current and emerging sectors.
	<b>Sharing Risks and Rewards.</b> New approaches to implementing site development, often part of area based regeneration strategies, have emerged in recent years. Joint ventures and special purpose vehicles are now more common place, with a greater emphasis on balancing the risks and rewards between the public and private sectors. For these approaches to prove successful, there is a need for a shared understanding of the objectives and outcomes and a balance to be struck by the public sector between strong leadership and collaborative working.
<b>Enterprise</b>	<b>Stimulating and Supporting Enterprise.</b> Very careful consideration needs to be given towards relative resource deployment in stimulating and supporting enterprise in deprived communities as opposed to measures to help these residents access employment. In a time of tight labour markets the return on the latter in terms of improvements in incomes and life chances may be considerably higher. A related point is that context matters. The capacity of an area to generate sufficient demand for the products or services of a new business should be a significant factor in determining resource deployment.
	<b>Focus of Enterprise Development.</b> If the objective is to encourage greater rates of entrepreneurship amongst residents of deprived communities then it is unlikely that the past Community Economic Development focus of programmes and support is the best way forward. Community economic development and what it is associated with in terms of enterprise support (social and community enterprises) has its place, but it should not be the main

Table 3.1 Lessons for the Development of the Operational Programmes 2007-13 – Analysed by NSRF Priority	
	focus of support.
	<b>Alignment with Mainstream Provision and Delivery Structures.</b> There is a strong national policy push towards reducing the number of schemes, projects and organisations involved with business (and enterprise) support. The role of Structural Fund programmes in the past has been to encourage a proliferation of additional or parallel support to the mainstream (although in some areas, such as the North East, strenuous efforts have been made to reverse this). The design of programmes needs to work with this new focus on <b>slimmer delivery structures</b> and the <b>coordination of provision</b> .
	<b>Role of Structural Funds.</b> The role of Structural Fund programmes in relation to enterprise support could have two explicit main foci: supporting the “ <b>outreach</b> ” role of enterprise support through projects and organisation that are effective in helping residents of deprived communities access mainstream support; and (ii) supporting larger projects that focus on stimulating and supporting enterprise <b>targeted on particular groups</b> facing common issues.
ESF Priority One: Extending Employment Opportunities	
<b>Worklessness and Economic Inactivity</b>	<b>Coordinated, Strategic Approach.</b> Tackling the concentration and persistence of economic inactivity requires a strategic, coordinated approach that draws together the expertise and resources of national organisations such as the JC+ and the LSCs, as well as the local knowledge of the LSPs, local communities and providers. Many partnerships are making progress in this area, increasingly through Local Area Agreements – however, there remains a great deal which can be done to strengthen the approaches, including aligning ESF funding more closely behind these local strategies.
	<b>Integration with the Wider Sustainable Communities Agenda.</b> As highlighted earlier, the concentration of high levels of economic inactivity in deprived communities and amongst particular groups is often a consequence of multiple factors including skills, access to jobs, caring responsibilities, health, crime and housing. Successful approaches to tackling economic inactivity recognise this and have adopted approaches which not only respond to the multiple barriers to gaining and retaining work, but also integrate well with the wider neighbourhood regeneration efforts. In addition, interventions should recognise the heterogeneity of different groups with regard to different barriers to labour market participation, often requiring tailored intensive assistance (which is likely to be high cost).
	<b>Innovation and Risks.</b> Related to the above point, the emphasis on using ESF to explore new ways of delivering agreed strategic priorities should continue. In this sense, ESF should be less risk averse than mainstream provision and should be used to trial new approaches. The extent of freedom and autonomy to innovate may be a crucial aspect of bringing partners into the ‘fold’.
	<b>Role of the Voluntary and Community Sector as Delivery Partners.</b> These sectors can play a very important role in working within deprived communities and with target groups. Their strength lies in their knowledge of, and the trust they have been able to foster with, particular target groups and communities. JC+ and LSC have an important role to play in encouraging these organisations to build their capacity and expertise, for example through collaborative approaches, so that they can be effective delivery partners for these groups and communities.

Table 3.1 Lessons for the Development of the Operational Programmes 2007-13 – Analysed by NSRF Priority	
ESF Priority Two: Developing a Skilled and Adaptable Workforce	
<b>Workforce Development</b>	<p><b>Alignment of National and Regional Policy Imperatives.</b> By channelling resources through nationally recognised bodies, co-financing offers a greater opportunity to link ESF funded activities with mainstream provision and to support the national Skills Strategy. However, it is important that the efforts to align ESF to regional workforce development and business competitiveness priorities continue, with the Regional Skills Partnerships/RDAs providing an important lead in this area.</p>
	<p><b>Demand Led Approaches.</b> A number of programmes have been particularly effective in adopting more demand led approaches, proving effective in the strategic use of labour market information in the planning and commissioning of provision, as well as the development of projects which are very responsive to the needs of SMEs. It is important that overcoming the barriers to SMEs participating in skills development activity is built into the design of the provision. Provision must be flexible in terms of where it is delivered (e.g. on employers' premises), how it is delivered (e.g. bespoke and specialised training and specialised non-validated short courses), when it is delivered (e.g. outside traditional provider working hours) and who delivers it (e.g. from any LSC-accredited provider). A demand-led approach to workforce development provision needs to be accompanied with efforts to stimulate demand for the services. These approaches need to be adopted more widely.</p>
	<p><b>Integration with the Business Competitiveness Agenda.</b> Workforce development and other business development interventions that seek to boost the productivity and competitiveness of SMEs are complementary activities that should be planned in an integrated manner. However, experience has shown that this integration is rarely achieved. Given the separation of these activities into two separate programmes in the future programming period, this will be a challenge which needs to be tackled during the programme development process at two distinct levels: strategically it needs to be addressed at a regional level; whilst in terms of delivery it should be considered at a sub-regional level. The scope to combine the use of ESF and ERDF resources to support workforce development needs to be considered at this stage in the development process.</p>
	<p><b>Portfolio Approaches.</b> The 'portfolio approach' to workforce development is an important aspect of the co-financing approach. The ability to effectively engage with employers and to increase levels of training requires interventions which complement specific training activity - co-financing arrangements should be used to enhance both capacity building and linkages between different providers, as well as lowering the cost to SMEs of accessing training through improved information provision and signposting.</p>
	<p>See also the knowledge transfer and cluster development recommendations above under the 'Stimulating Enterprise and Supporting Successful Businesses' and 'Promoting Innovation and Knowledge Transfer' priorities.</p>

## 4. The Case Studies

- 4.1 The headline findings for each case study are presented below (the appendix report presents the full case studies) covering:
- Comments on the context and rationale for intervention in each theme;
  - An overview of the effectiveness of approaches and interventions; and
  - The lessons for the next programme period, covering: (i) overall programming approaches; and (ii) project interventions.

### Case Study One: Brownfield Land and Employment Sites

#### Context and Rationale

- 4.2 Alongside the provision of property for SMEs, the development of employment sites is a common theme in local and regional economic development within the UK. At a national level English Partnerships (and before this English Estates) has played a key role in reclaiming major areas of dereliction and contamination in England's industrial heartlands and it now has a broader remit for the growth areas designated through the Sustainable Communities Plan. Since the creation of the RDAs, the (coordination of) development of regional strategic sites has been seen as their responsibility (and implemented in conjunction with EP, local authorities and private land owners).
- 4.3 The development of brownfield land for employment use is a central aspect of all eight programmes reviewed. The rationale for investing public sector money in the reclamation, assembly and servicing of brownfield land for employment use is generally well articulated in the programme strategies. It is seen as a key means of providing the portfolio of sites and premises which are required to support economic restructuring and growth. It is also well articulated in terms of the failure of the market to deliver sites and premises on a scale, of a type or in the locations that will assist in achieving these economic development objectives.
- 4.4 Underlying this rationale, most programmes have placed a strong emphasis on site development as an integral part of spatial development, in which resources are targeted at defined areas in order to tackle the interlocking barriers to investment (remediation, assembly, public realm and related infrastructure, property development). There is typically less clear emphasis on the business competitiveness role of site development and this is reflected in the relatively poor specification of site development in terms of end uses and demand, as well as the intended property product.
- 4.5 There have been a number of changes in the policy and economic context which have had a bearing on site development pursued through the Objective 1 and 2 programmes:
- The **Sustainable Communities agenda** which has emerged over the past 5-6 years has emphasised a broader consideration of the sustainability of land use and employment locations. This has led to a shift towards the reuse of brownfield sites in locations that are well connected into the public transport network.
  - The **emergence of the RDAs** has seen the Structural Fund programmes seeking to align their site development activity with the spatial, strategic site and cluster priorities of their respective RDAs.
  - The emergence of English Partnerships' **Coalfield Programme**, which has been instrumental in remediating and developing a large number of (often major) former

colliery sites. This is particularly relevant to areas such as South Yorkshire, North West, North East and the East Midlands.

- In economic terms, the **economic performance** of England has been strong over the past decade as a whole and some of the programme areas have experienced marked improvements in the performance of their local economies in part benefiting from the spill-over benefit of faster growth in more successful regions. This has raised a question mark over the extent of market failure in some locations and the scale of public sector intervention required.
- In addition, the number of **inward investment** projects seeking major greenfield sites in the UK has declined considerably over the past decade. This has implications for the approach to site development that the programmes have adopted, reducing the need for major single user, greenfield sites.

### Effectiveness of Approaches and Interventions

4.6 As noted above, in broad terms most programmes have placed a strong emphasis on site development as an integral part of spatial development, in which resources are targeted at defined areas in order to tackle the interlocking barriers to investment. However, in practice the tactics have varied widely between programmes – the three main approaches have been:

- **Sub-regional investment approach** (adopted by the Yorkshire and Humber and London Objective 2 programmes), with ERDF funding aligned behind the sub-regional investment plans that have been led by the RDAs and their sub-regional or area based partnerships;
- **Area based action plans** (adopted by the North West Objective 2 programme), typically focused at the level of the local authority;
- **Strategic development zones** that are tightly defined spatially and typically orientated to the opportunities presented by a strategic location and a cluster of major development sites.

4.7 In most instances, these approaches are firmly orientated towards remediation, assembly, public realm and related infrastructure, and property development. However, a number of programmes initially adopted an **integrated development plan** approach that explicitly includes wider aspects of programme activity (e.g. workforce development and business support), although most have pulled back from this approach.

4.8 It has not been possible to evaluate the effectiveness of these approaches in depth as part of this study. It is worth remembering that this is a complex area, in which the programmes have pursued many and varied strategic and delivery approaches. However, the study has drawn some general conclusions, many of which are common across these approaches:

- The extent of alignment with RDA priorities varies. Some programmes have simply aligned resources behind the emerging spatial priorities of the RES. Others developed area-specific priorities and action plans, with some proving difficult to align to the emerging priorities of the RDA. In other instances the Objective 1 and 2 spatial action plans were significant in their own right to shape the emerging priorities of the RDA and align their resources behind them.
- A common weakness of many of the programmes is the robustness of the strategic demand analysis and the manner in which it has informed the development strategy for sites and premises, including the role of site development in supporting sectoral

change. However, a number of programmes have responded well to changes in economic and market circumstances (for example as a consequence of the decline in major inward investment projects) and policy shifts (RDA cluster policy).

- Some programmes have arguably prioritised too many target areas and as a consequence spread resources too thinly to secure significant impacts in all or even most locations (whilst increasing the administrative burden).
- The long lead in times for the planning, development, marketing and subsequent occupation of major employment sites has been a common issue for programmes. Many of the defined spatial areas have required the preparation of detailed masterplans, the drawing together of development and delivery teams, and new partnership structures. As a consequence, some programmes will struggle to achieve the intended impacts in this programming period, despite a general up turn in economic performance and demand for land and property.
- A number of the programmes with more substantial programmes of land reclamation and site development have experienced difficulties due to their limited internal capacity to progress schemes. However, Liverpool City Council and the partners in South Yorkshire developed strategic development vehicles to pool capacity and gain critical mass. Elsewhere in Yorkshire, Yorkshire Forward has seconded staff and grant-aided local regeneration agencies specifically to tackle these capacity issues.
- The area-based action plan route has in some instances led to the establishment of additional partnership and management arrangements, especially for some of the larger spatial packages and schemes. These have led to a proliferation of partnerships and delivery teams. However, in other instances new organisations have provided a strong strategic-led approach and offered an effective mechanism for a variety of agencies to channel their funding into an area (as is the case with the URC in East Manchester).

- 4.9 In terms of the changing policy and economic context, the analysis of the programmes suggests that most have responded well. In terms of the shift in **planning policy**, the site development activities of the programmes in general tie in well with this agenda (given the underlying sustainability principles of the current round of Structural Fund programmes). However, the environmental sustainability of some of the major employment sites which have been taken forward are questionable, especially those which are Greenfield and are located away from or on the periphery of urban locations.
- 4.10 The extent to which the programmes have aligned themselves to the **RDAs** and their emerging strategies has varied, although this has generally been stronger in the realm of spatial development and regional sites. Most programmes have struggled to more explicitly link site development with the cluster priorities of the RDAs, although there are a number of exceptions (for example, some linkages have developed in South Yorkshire). There is typically less emphasis on the business competitiveness role of site development, and this is reflected in the relatively poor specification of site development in terms of end uses and demand, as well as the associated property product.
- 4.11 Whilst programmes have responded well to the changing nature of the inward investment market, it is not clear how well programmes have responded to wider improvements in local economic conditions and the implications of this for the market failure rationale for intervention.

- 4.12 Some programmes have sought to develop strong **links between the major site development opportunities and deprived communities**. The emerging lessons from Merseyside, East Manchester and South Yorkshire suggest that for local people to benefit from major employment-creating developments, there is a need for a proactive partnership approach between the public sector and occupiers. This needs to be underpinned by the breadth of provision that responds to what can be a major challenge – provision that gets people ‘job-ready’ and provides access to job opportunities, whilst having the flexibility and intensity of intervention necessary to tackle the multiple barriers that many in these communities face.

#### **Lessons for Future Programming Approaches**

- 4.13 The NSRF indicates that the next round of Structural Fund programmes in England will, in all likelihood, not have major levels of resource available for the development of employment sites. Nevertheless, there are a number of lessons which should inform this aspect of the future programmes.
- 4.14 **Alignment and Integration with RDA Spatial Priorities.** Site development activity needs to be integrated and aligned with priorities for the regional strategic sites and spatial development set out in the RDAs’ regional economic strategies, as well as the sub-regional strategies which have been developed in partnership with the RDAs. There will not, in most instances, be a case for the new programmes developing distinct spatial and site development strategies which have a different emphasis or focus to those being pursued by the RDAs. Besides the obvious strategic advantages of this approach, it will also help to ensure that this area of activity draws on existing partnership and management structures, avoiding proliferation.
- 4.15 **Alignment with RDA Business Competitiveness Priorities.** Linked to the above point, it is highly desirable that site development activity is more explicitly predicated upon the existing strategies for securing sectoral change and business growth. In practical terms, this means ensuring that site development activity supports both generic business and sectoral development priorities (although the appropriateness of linking to sector or cluster strategies will vary between locations/sites).
- 4.16 **Sustainability.** Although the current Structural Fund programmes have embraced the sustainability agenda, there are nevertheless examples of major site developments being supported by ERDF grant for which the overall sustainability of the scheme is questionable. Although there is often a need to balance the economic and environmental impacts of site development schemes, the sustainability of a site in terms of, for example, its nature (greenfield/brownfield), location (eg urban centre, urban fringe) and connectivity (e.g. links to public transport and deprived communities) should be a major consideration in the decision to grant fund schemes.
- 4.17 **Timescales.** Many of the current programmes have experienced significant delays in the development and implementation of spatial packages and major employment sites. This reflects the complexity of the spatial package/action plan approach, capacity constraints upon the partners, as well as the inherently long lead-in times in bringing major employment sites to market. This needs to be borne in mind in the phasing of future programmes, but also mitigated wherever possible by avoiding the delays associated with the establishment of new strategies, partnership and delivery mechanisms.

- 4.18 **Market Failure.** Given the economic changes which have occurred in many programme areas over the last five years, the future programmes need a clearer articulation of the nature and extent of market failure and the strategic rationale for public sector intervention. In market terms, subject to specific site constraints and related issues, the need for public sector intervention will become increasingly marginal in some locations. This needs to be tested.

#### **Lessons at a Project Level**

- 4.19 **Market Orientated, Portfolio Approaches.** The development of the site development activities of the future programmes need to more explicitly recognise the need for regional and sub-regional economies to offer a portfolio of sites (and premises). This clearly needs to be evidence-based, being informed by existing provision and the level and nature of the demand of current and emerging sectors.
- 4.20 **Sharing Risks and Rewards.** New approaches to implementing site development, often part of area-based regeneration strategies, have emerged in recent years. Joint ventures and special purpose vehicles are now more commonplace, with a greater emphasis on balancing the risks and rewards between the public and private sectors. For these approaches to prove successful, there is a need for a shared understanding of the objectives and outcomes and a balance to be struck by the public sector between strong leadership and collaborative working.
- 4.21 **Delivery Approaches.** Where ambitious programmes of land reclamation and site development are planned, the experiences of South Yorkshire and Merseyside have highlighted the benefit of establishing strategic development vehicles. The purpose of these vehicles is to provide a coordinated approach and the expertise and capacity to manage the strategic development process for major sites. However, if this type of approach is appropriate, we would expect RDAs to lead on this in the next programming period.
- 4.22 **Enabling Deprived Communities to Benefit from Site Development.** The emerging evidence suggests that the process of linking deprived communities and groups to areas of employment growth is complex and challenging. The more successful approaches emphasise the need for a proactive partnership approach between the public sector and employers/occupiers. This needs to be underpinned by a breadth of provision that responds to the specific and often diverse barriers faced by these communities/groups.

## Case Study Two: Property for SMEs

### Context and Rationale

- 4.23 Action to bring forward sites and premises for SMEs is an important and prominent part of each Programme reviewed. The provision of space for SMEs has been a feature of most local and regional economic development strategies in the UK for the last 25-30 years, whether in urban or rural areas (e.g. through the activities of English Estates, English Partnerships and the Rural Development Commission). Financial support for the delivery of SME space has also featured in all Objective 1 and 2 Programmes in England, although in many cases the relative scale of support has been reduced compared to other interventions. Public funding support for SME property provision has, since 1999 and the creation of Regional Development Agencies (RDAs), increasingly been seen as the role of RDAs. Over the period 2000 to 2006 there have been no major strategic policy shifts in the national policy context.
- 4.24 The main policy shift, driven by the cluster approach to regional economic development, has been an increased role for SME property provision not as an end in its own right but as a **facilitator of cluster development and business competitiveness**. The rationale for why public money should help the development of SME premises is not generally well articulated in market failure or distributional terms. The type of rationales include:
- **Sector/clusters and knowledge transfer.** Driving change in the sectoral composition of the economy through developing specialist accommodation (primarily incubators and managed workspace) to meet the needs of target sectors/clusters. Whilst this may sometimes involve specialist facilities or layouts it more typically involves the provision of specialist business support or knowledge transfer facilities wrapped around the property product. Similarly, some SME property, whether on Science or Technology Parks or in incubators, is positioned as aiding the process of knowledge transfer and exploitation of a region's knowledge assets (where physical proximity between SMEs and HEIs is intended to aid the process of knowledge transfer).
  - **Supporting enterprise.** Supporting the growth of small firms and start-ups through more generic but modern accommodation (often on flexible terms to help firms in the start-up phase) across the Objective One or Two areas but also in some cases targeted at rural areas or former steel/coalfield areas. Clearly such provision is potentially in competition with private providers (such as serviced office accommodation or flexible industrial units in secondary locations).
  - **Social reasons - aiding the economic and social development of particular communities.** Tackling acute distributional failures in particular communities or locations in which individual entrepreneurs and SMEs are unable to access suitable business premises (in part because there is not sufficient demand from a mass of SMEs to enable cost-effective private provision). This can include sector-specific schemes, community or social enterprise schemes and more generic requirements.

### Effectiveness of Approaches and Interventions

- 4.25 With the exception of South West Objective 2, each Programme considered has two common, broad approaches to the delivery of these interventions, although the weighting of these approaches varies. These are:

- **Spatial development** in which resources are targeted at defined areas in order to tackle interlocking barriers to investment (for example, action on site remediation or assembly, improvements to surrounding public realm and the development of premises). This approach is intended to focus investment in order to achieve maximum impact, often providing a mechanism (such as an Integrated Development Plan) for pulling in both capital investment and revenue support (including on skills or transport). The strength or coherence of this strategic spatial development appears to vary significantly, both in conception/ intent and in practice. An example of this approach is the Widnes Waterfront Economic Development Zone, for which ERDF of £7.5m and match from NWDA and Halton Borough Council is intended to lever in substantial private investment and to transform 80 hectares of riverside brownfield land through commercial office, light industrial and leisure development.
- **Competitiveness-driven**, in that all Programmes include an element of support which is available for schemes outside of strategic spatial development areas intended to drive sectoral change and/ or produce an uplift in economic activity, and which are typically (although not always) tied in with sector or cluster initiatives. A good example of this approach is the creation of the Hothouse project in Stoke, which aims to build on the area's historical strength in ceramics through incubation of and other specialist support for higher value added production and design-based enterprises.

4.26 In each of the programmes for which project reviews have been undertaken there are linkages between SME premises and the wider cluster or sector development agenda (or in the case of the South West the broader aim to secure a growth in science/ knowledge-based activity), although linkages vary in strength and in the degree of coherence. The degree of linkage reflects several factors:

- First, the extent to which **cluster or innovation programmes** had been developed down to an action level at a regional or sub-regional level. Where this has not happened, there is clearly a danger that there is no coherence to the type of SME premises supported or strong rationale on impact on the targeted clusters/sectors.
- Second, the extent to which SME premises (or lack of them) is seen as an **important cluster/sector driver**. The arts/creative sector is one where the creation of affordable creative places, where start-up creative firms can co-locate often in refurbished older buildings is a common thread. In some cases such buildings also have a dual role as visitor attractions. Another sector where this has also happened is in the case of biotechnology and incubators, where there is a need to supply specialist property (lab space) close to HEIs, which is less likely to be delivered by the private sector.
- Third, where there is no obvious sectoral need for specialist premises or locations (e.g. engineering or ICT firms), there has been a less strong competitiveness case for linkages with sector or cluster development agenda.

4.27 Our project reviews suggest that there is sometimes considerable scope to strengthen the operational linkages between sector or cluster-focussed premises and the wider sub-regional or regional cluster development programmes. There is clearly merit in ensuring that cluster development organisations are more closely engaged with tenants at such specialised property schemes.

- 4.28 The strategic case for intervention in SME premises serving a general enterprise support case or a social/distributional need has, generally, been poorly articulated and approached in the programmes we reviewed. What has happened is a pepper-potting approach, with projects often developed on an opportunistic basis. The case for the development of new premises, on a subsidised basis, has not been well articulated. In particular, there is widely held assumption that the lack of suitable quality premises is an impediment to business growth, even when a large supply of cheap premises (of a secondary nature) may be a competitive advantage for some firms in some locations. There is little analysis of willingness and ability to pay by SMEs in local areas and that the extent to which the lack of competitiveness and low value added/margins of businesses may be the cause of lack of good quality property product. There is also no analysis of the effect direct publicly funded provision may have on the economics of private development for new premises in secondary office/industrial locations.
- 4.29 In London, the Area Partnership approach, in which a range of local and London-wide strategic bodies (including LDA) are represented, (meeting regularly to discuss and shape projects), offers a good model in which such linkages can be identified at project design stage and throughout the life of the Programme. The Objective Two Programme was informed by an already existing LDA strategy and benefited from closer operational links between the two funding streams (which were more closely aligned and had been for some time), whilst elsewhere the need to integrate more effectively was identified in MTE documents. To some extent, the weaker linkages in the other projects reviewed were compensated for by strong science park networking functions (social events, business support clinics, newsletters etc.). The science park management had put in place mechanisms to disseminate useful information and to promote other support available (both generic and sector-specific).
- 4.30 All three of the projects reviewed have been successful in creating attractive and thriving business environments. Project reviews highlighted a number of important but familiar messages about the success of schemes on the ground. These included the:
- need to ensure that maximum flexibility is designed into the scheme from the outset, ensuring that SME premises have a broad market appeal and can be readily reconfigured to adjust to circumstances,
  - Need to take a relatively hard-headed view of shared space and not to overburden the financial model with non-lettable space,
  - Importance of good design in creating market interest and, in a number of cases, the importance of public sector anchor tenants.
- 4.31 In the case of the two science park developments reviewed here, there is a strong awareness of the need to engage with the private sector in order to bring forward future development. Consultees have had or are about to begin exploratory discussions with developers, and are able to demonstrate market demand by pointing to the success of the commercial property 'product' created using ERDF funds.
- 4.32 There is relatively little systematic evidence on the impact of SME premises support at a project level and at a wider property market level. Our recent evaluation of the impact of the North East Objective 2 Business Support interventions covered provision of SME premises. The findings from the survey of SMEs provide a clear message that, from an SME perspective, lack of suitable premises is rarely a significant factor in limiting business expansion and that alternative premises could have been found (in 48% of the small sample of firms surveyed).

This suggests that, in those schemes that provide a modern and attractive environment but which do not offer sector-specific facilities (e.g. laboratory space, digital video editing suites), the additionality from public support could be substantially reduced (with the scheme having significant displacement effects on private sector schemes).

### Lessons for Future Programming Approaches

- 4.33 **Market Failure.** There is a shortage of good, case-specific research and evidence on the precise nature and cause of market failure which Programmes and projects are seeking to address. All of the projects reviewed involved public sector led development and there did not appear to have been a detailed consideration of how the private sector could be drawn into participation<sup>5</sup>. Whilst this has helped a number of the schemes retain a sharp strategic focus or a particular ethos, it may also have resulted in the public sector doing more than was strictly necessary. In two of the three projects reviewed the need to fully consider the role that public and private sector investment can play in future phases is now being examined.
- 4.34 This need to take a more rigorous approach to understanding market failure, the ways in which this can be tackled and opportunities to maximise limited public sector funds by leveraging in private investment (for example through the creation of new Joint Venture vehicles) is likely to necessitate a shift in the skills and expertise required of teams at both programme and project level. This will include a greater understanding and experience of commercial development and of new (or proven) forms of public-private partnership. All of the projects reviewed had experienced senior managers (in two cases relatively new in post), alive to the evolving challenges faced and the need to explore opportunities to draw in the private sector in future phases of development.
- 4.35 Most fundamentally, in making the case for investment in SME premises future programmes should ask the question: **what is the rationale for intervention and could it have unintended consequences** (e.g. on private sector appetite for investment and development)? The evidence and our experience suggest that:
- First, the strongest market failure arguments relate to the situation where the SME premises help the process of **clustering** (and its externalities from linkages between firms and other organisations) or **knowledge transfer** (as adjacency between firms and between firms and institutions can increase the rate and effectiveness of knowledge transfer). However, in both cases the question should be asked – would there be a more cost effective approach by building up networking and institutional capacity rather than investing in bricks and mortar?
  - Second, there may be a case in terms of SME **starter premises** as a means of encouraging more enterprise, but often it is not clear what the market failure is and whether the perceived lack of premises (of a particular quality, type or size) is simply a reflection of lack of market demand. There may be more cost effective ways of encouraging provision of low cost, flexible start-up space than direct public sector intervention. However, there may be a stronger case where the objective is to encourage enterprise in a particular location or community (i.e. social/equity grounds rather than market failure).

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<sup>5</sup> It is worth pointing out that problems in dealing with State Aid issues precluded the involvement of the private sector in delivery of projects (via gap funding) and encouraged a public sector direct delivery approach in most programmes.

- Third, where lack of overall SME demand and rental levels relative to build costs mean that private sector developers will not deliver SME space and so there are limited opportunities for SMEs to expand (especially in rural areas), there may be a case for public intervention.
  - Fourth, there may be a **sustainability/environmental** case for public sector investment in the creation of SME premises where this involves the re-use of an older building which acts as an eyesore and deterrent for investment and there are additional costs involved which prevent normal commercial development.
- 4.36 **Portfolio-Based Approach.** There is a growing recognition of the need to develop a portfolio-based approach to intervention, ensuring that programmes provide not only early stage incubation and flexible managed workspace but also larger workspace units and grow-on space offered on more traditional terms where these relate to the process of sector/cluster development of knowledge transfer. This not only reflects the experience of projects funded in the first half of the current programmes (in which it has been observed that there is sometimes a shortage of grow-on space for incubated or otherwise supported companies to move into) but also the need to ensure that the full impact of these incubation schemes is realised.
- 4.37 **Strategic Integration.** As with other areas of activity, it will also be vital to ensure that the support for SME premises in future Structural Fund Programmes are well aligned with RDA activity (the main source of match funding) and strategic goals in order to maximise impact. Good integration is needed both in strategic documents and operationally.

#### **Lessons at a Project Level**

- 4.38 **Managing Tenant Throughput.** There is evidence of 'bed-blocking' in a number of incubators that do not, or did not at first, stipulate move-on policies with existing tenants preventing new entrants. To date, however, this aspect of the portfolio-based approach is rarely explicit in revised Single Programming Documents or Programme Complements but, as incubators across the country mature, will be a major issue for the next Programme.
- 4.39 **Procurement Approaches.** Strong consideration should be given to opportunities to encourage and support wider vehicles capable of bulk-procuring key services (most notably high quality broadband and other ICT infrastructure, but also important whole-life revenue costs such as security and maintenance). There may also be opportunities to introduce a greater degree of efficiency in the development of workspace through the roll-out of 'standardised' models of workspace, in partnership with a developer or developers. In some cases, the tendency to seek to gold-plate schemes (for example, through higher levels of business support and fit-out) may need to be reduced in favour of providing fit-for-purpose but attractive units and stimulating the wider market for SME premises.

## Case Study Three: Knowledge Transfer

### Context and Rationale

- 4.40 There is an increasing evidence base that the effective use of knowledge (which encompasses but is a wider concept than purely technology) is a key to business and economic success. It is a strong strand in UK government and EU policy. The national Higher Education Innovation Fund (HEIF) supporting HEIs in aiding business competitiveness is an example of the increasing importance being attached to knowledge transfer. Regional Development Agencies have invested in knowledge sectors and are progressively refining their focus onto the accumulation and exploitation of Intellectual Property within regional economies. And Europe itself has stepped up its focus through its Framework Programme 6 and the creation of a “European Research Area” (ERA) to “foster scientific excellence, competitiveness and innovation”<sup>6</sup>. The profile of knowledge transfer has increased at all tiers of economic development and is now a widely accepted requirement of future economic competitiveness.
- 4.41 The investment of public resources in knowledge transfer can be justified on strong market failure arguments, essentially built around the information costs and asymmetries between smaller businesses and those with the sources of knowledge. A secondary case could also be made on institutional grounds; even when the value of IP is recognised ready mechanism to realise that value are often not apparent. The ultimate challenge of knowledge transfer is to translate knowledge into value through the generation of new intellectual property (IP). The Lambert Review (which looked more widely at University Business Collaboration) defined Knowledge Transfer as “transferring the knowledge and skills between universities and business and the wider community which increases the economic and social returns from this investment.”<sup>7</sup>
- 4.42 In practice Knowledge Transfer should not be restricted to just universities. Other educational and research institutions and major private sector companies often have much more applicable and valuable IP. Indeed one of the factors which characterises recent interventions in this arena is the loose interpretation of what constitutes *Knowledge Transfer*. A substantial proportion of the activity supported is perhaps more accurately described as *higher level business support*. There are other rationales for supporting KT – from an economic development perspective the core process must increase the total value of IP and probably therefore led to one of the involved parties seeking to protect the value of their IP through legal means (conventionally copyright or patents). Simply transferring knowledge without any subsequent accumulation of value in the economy is not a primary focus of economic development
- 4.43 Many public interventions at a regional level have been built on exchanging knowledge within a region. In practice, many forms of knowledge transfer actually take place over longer distances, often working through supply chain networks which cut across regional or national boundaries. However, research undertaken for the recent Lambert Review found that there was “geographical friction” in the process of knowledge transfer and that geographical proximity often does matter<sup>8</sup>.

<sup>6</sup> <http://www.cordis.lu/fp6/whatisfp6.htm>

<sup>7</sup> Lambert Review of Business-University Collaboration, HMSO, 2003. [www.lambertreview.org.uk](http://www.lambertreview.org.uk)

<sup>8</sup> [http://www.hm-treasury.gov.uk/media/EA556/lambert\\_review\\_final\\_450.pdf](http://www.hm-treasury.gov.uk/media/EA556/lambert_review_final_450.pdf)

- 4.44 Some knowledge transfer activity has been developed and managed under the auspices of cluster programmes, in other instances it has related to broader types of firms (e.g. manufacturing firms) and in some cases the focus has been on knowledge transfer opportunities associated with a particular institution (e.g. in relation to science parks).

#### Effectiveness of Approaches and Interventions

- 4.45 Support for knowledge transfer has featured in all of the Objective 1 & 2 Programmes in England, albeit to varying levels of investment and clarity. None could be said to have met the twin objectives of delivering a strategic programme:

- Driven from a comprehensive analysis of market failure and based on a considered appreciation of economic opportunity; and
- Led by an efficient approval and oversight mechanism which supported intensive interventions based on the lessons from previous and on-going rounds of investment.

- 4.46 Although some Programmes have come close to meeting one of these criteria, the trend is skewed towards a reactive and tactical approach. The three Programmes reviewed in the case study have been substantial investors in knowledge transfer and present three interesting and contrasting approaches to programme governance. The three Programme areas have much in common, notably:

- The nature of the economic challenge of transforming traditional industry into competitive, modern higher value knowledge driven business;
- Some of the sectors where priority emphasis has been placed;
- Their commitment to bring the HEI sector into the economic development arena; and
- The types of project supported especially regional HEI gateway projects such as NW Knowledge and Knowledge House and the use of physical centres such as Centres for Industrial Collaboration and Centres of Excellence.

- 4.47 Nevertheless each programme has adopted different approaches to the governance, oversight, administration and development of knowledge transfer activity:

- The **North West** has adopted an Action Plan approach which has generated significant resource obligations building systems, teams, relationships and reputations. There has been less emphasis in the North West on agreeing a strategic framework for knowledge transfer interventions against which initiatives could be commissioned. The region appears (perhaps not unrelated) to have supported many smaller sized projects.
- In contrast, the **North East** has relied much more on a strategy driven approach, adopting recently the regional Strategy for Success as its guiding framework for intervention. The Programme has not developed a separate organisational structure to administer and oversee the development and roll-out of knowledge transfer initiatives which are instead administered centrally by GONE. The North East has also sponsored a more modest number of initiatives than the North West but has done so at a much greater scale of intervention.
- The **South Yorkshire Objective 1 Programme** has not adopted or developed a strategic framework to govern its interventions and nor has it established a separate organisation for overseeing the suite of activities. Instead the Programme, which operates over a smaller geography with fewer partners, has relied heavily upon a series of bilateral relationships at the project development stage and the existing

programme management arrangements structures for oversight. Nevertheless, the O1 Programme has invested in Yorkshire Forward's regional network of Centres for Industrial Collaboration which are an important delivery vehicle for RES objectives. The O1 Programme has not achieved the North East's intensive investment profile, but equally has not supported the proliferation of knowledge transfer projects seen in the North West.

- 4.48 The causal link between the structure and strategy elements of the programme and the actual suite of interventions is not conclusively proven, but there are reasonable grounds to suggest the two are not unrelated. Looking forward, the North West, having absorbed the pain of developing structures and relationships, could now be in a strong position to radically alter the shape of its programme of interventions. The North East Programme's reliance on Strategy for Success and a limited number of flagship interventions similarly places the region in a strong position to build on its existing achievements. The South Yorkshire O1 Programme's reliance on individual relationships does raise questions about the loss of capacity and expertise as the current Programme comes to an end.
- 4.49 This evaluation has not comprehensively mapped all knowledge transfer activities in each programme or assessed the impact the different approaches have had on their respective regions. Regeneris' previous evaluation of knowledge transfer projects in the North West Objective 2 Programme found that the evidence of impact was limited. Many of the projects were simply co-located with HEIs and not sufficiently well embedded into their operations to make a change in HEIs core ethos and operations. Although many of the supported SMEs were very happy with the support they had received, the evidence of change in performance, products, management, turnover, jobs and profit was much less convincing. Furthermore the evidence was that the impacts were concentrated on spectacular results in a handful of firms and no or modest impacts on the rest. This is consistent with past national evaluations of funding aimed at helping SMEs develop innovative products (e.g. SMART and SPUR).

#### **Lessons for Future Programming Approaches**

- 4.50 This evaluation has highlighted a number of important messages relevant to programming in the future.
- 4.51 **Need for a strategic and coherent approach.** The body of learning accumulated in recent years now needs to be placed on a clearer strategic footing which: sets out the role of knowledge transfer in regional economic development; identifies priority areas for investment where maximum economic change can be effected; builds on existing assets & opportunities within the higher education and business base; and is driven from a more sophisticated understanding of the market failures which constrain effective knowledge transfer.
- 4.52 Future programmes of investment must be built upon a clear framework of investment priorities (rather than an experimental or competitive approach) which encourage long-term and intensive support to initiatives.
- 4.53 **Accepting Risk through a Portfolio Approach.** The HEI and business interface has to be a developmental one which is able to take risks and adopt a commercial, almost speculative mindset. ERDF's focus on output-driven activity and its complex accounting requirements for match funding and use of income (particularly from the private sector) runs against the grain of these objectives. The pressure to generate outputs from activity militates against important developmental, market-making and culture change activities.

- 4.54 **Outputs.** The output framework of ERDF Programmes, although flexible (there are numbers of instances where new outputs have been agreed with the Commission) is still a source of frustration for delivery agencies. Knowledge Transfer's impact takes a long time to manifest itself on the bottom line of businesses and can come in many different forms. The downstream impacts on turnover and GVA are extremely hard to predict and the causal link becomes more tenuous the longer the time horizon involved. The focus on the number of SMEs assisted has had a particularly pernicious impact in some programme as it has often encouraged quantity over quality.

#### **Lessons at a Project Level**

- 4.55 **Routes to market.** A great deal of learning continues to go on about how to find the best route to market for knowledge transfer products and services. It is hard to generalise about the optimal solution as it often varies from sector to sector. Nevertheless, the emphasis on establishing new delivery organisations within or close to HEIs, rather than relying on existing private sector providers of business support services, has meant that providers are starting from stand-still. They are having to establish reputations and awareness, learn quickly about what works and what doesn't and invest significant funds in new approaches before they can determine their success.
- 4.56 **Integration with other services.** There is a tendency to see knowledge transfer as separate and different to the rest of the business support agenda and to the core activities of HEIs. This has led to many projects operating in isolation from others providers and not being able to capitalise on shared marketing, monitoring, client management and after-care. This will clearly have an impact on SMEs' perceptions of the simplicity of the system and their likelihood of being referred onto the most appropriate provider from any one entry point.
- 4.57 **Changing cultures & attitudes.** Notwithstanding the suitability (or lack) of ERDF for supporting culture change interventions, there remains much to be learnt about the relative emphasis to be placed on changing attitudes (in both academia and business) and how best to deploy public sector interventions to support those objectives. The solution probably lies in striking a balance between direct awareness raising interventions (which generate little direct impact) and demonstrating by doing (which is inherently risky, longer term and does not necessarily reach those with greatest need or potential).
- 4.58 **Audit.** During the course of this Programme period many believe the audit regime of the Commission has tightened. This changing climate and the shifting interpretation of regulations has been unsettling, and has led many project managers to become (possibly overly) cautious and to lack confidence in the advice provided by GOs. Future programmes must put in place a consistent and clear interpretation of the regulations, which provides reassurance to deliverers as to the eligible activities in which they can engage
- 4.59 **Overheads.** each of the Programmes has had to undertake retrospective negotiations with HEIs about accounting for overheads. This has been a sensitive and complex matter. HEIs have not traditionally had systems for accounting for costs such as support staff. They have been required to adopt bespoke systems for their ERDF funds and to then apply them retrospectively in order to avoid claw-back. The use of Full Economic Costing has also tended to drive up the relative cost of HE projects suggesting they offer less value for money than those delivered by other agencies. On the face of it there is no obvious reason why HE costs should be any higher than those of other service providers, and further investigation is required to understand the true nature of this challenge and perhaps to forge agreement on a common method of calculation.

## Case Study Four: Cluster Development

### Context and Rationale

- 4.60 Those involved in economic development and business support at a regional and more local level for some years have recognised the benefit of some degree of sectoral focus. Traditionally, this has involved some prioritisation of training, inward investment marketing and business support towards sectors which an area has had an historic strength in or is seen as having future potential. However, the advent of RDAs in 1999, and then interest nationally in the whole concept of clusters as an economic development tool, led to the creation of regional cluster priorities and plans in the period 1999-2002. In most areas these priorities were not well developed whilst Structural Funds programmes were being designed. There is considerable evidence that clusters exist and that they are drivers of economic development; **what is less well evidenced is whether deliberate targeted public intervention can affect the process of cluster development in any meaningful way.** As far as we are aware there has been no systematic assessment of cluster development policies and interventions in the UK.
- 4.61 There has been considerable confusion over the difference between sectors and clusters and what is the special nature of clusters (especially where clusters are defined in terms of markets or technologies rather than business activities). However, if most regional clusters and their development programmes are examined closely in practice there is very little that would not also feature under a sector development programme. The number of and degree of definition of target clusters/sectors has varied widely by region and the focus of priorities as well as nature of activities has developed since 2000 to the present day (and indeed is still evolving). There is a sense in which clusters were perhaps a vogue concept in regional economic development and many RDAs are placing less focus on it in the future. However, the idea of concentrating business support on a small number of target parts of a region's economy seems here to stay.
- 4.62 Against this background, Structural Fund programmes have responded in different ways to regional cluster agendas. Sector or cluster development in the 2000-06 Objective 1 and 2 programmes has been a slow learning process. There was little 'good practice' on which to draw in designing programmes and interventions. Equally, RDAs have taken time to settle in and define their sectoral/cluster priorities, creating problems of strategic coherence between the O1/O2 programmes and the organisation with the key responsibility for regional economic development strategy.

### Effectiveness of Approaches and Interventions

- 4.63 All the O1 and O2 programmes support sectoral or cluster priorities in some form but programme approaches, key interventions and the lessons to be drawn from them reflect its comparatively recent rise to prominence in policies to promote economic development and competitiveness. The three programmes we have reviewed are notable for having adopted a strategic approach to sector or cluster development during the 2000-06 periods, though they took different routes to achieving it:
- Sector development on Merseyside was brought under the strategic direction of The Mersey Partnership, the sub-regional economic partnership which had responsibility for economic development including inward investment and economic intelligence. Initially, it coordinated the activity of individual 'Sector Champions' but has now taken on accountable body status. There have been tensions arising from the different

sectoral priorities at a regional level and in Merseyside and differences of view as to whether there was sense in creating or continuing to support sub-regional (rather than regional) cluster/sector infrastructure.

- South Yorkshire carried out a substantial amount of research and consultation to determine its priority clusters, which as in Merseyside did not initially align well with regional priorities. The O1 Programme has retained strategic responsibility for the cluster programme and has pursued a commissioning approach to bringing forward projects. This approach contrasts with the Yorkshire and the Humber O2 programme which chiefly supports cluster activity (along with more broadly targeted mainstream business support) through a multi-measure business support project run by Yorkshire Forward.
- The West Midlands O2 Programme handed responsibility to the RDA through the Cluster Action Plan which fully aligned priority clusters in the RES and O2 programme. This put the principal match funding provider at the centre of cluster development and is pushing integration between clusters and the nexus of business support and skills agencies (LSC, Business Link) and the HE sector.

4.64 The Action Plan or central coordination route offers a variety of advantages:

- It brings together disparate activity since individual sectors require both generic and specific interventions which creates a complex web of provision and delivery and may lead to duplication and inconsistent quality.
- By enabling the top level alignment of funding streams (e.g. RDA match funding), it gives sector/cluster development some security, at least over the short term. This is important because the early developmental stage is heavily reliant on public pump prime funding for network building, mapping, promotional work and other 'soft' activities which would not attract private sector funding.
- It encourages connections between the O1/O2 programme and wider regional (or sub-regional) business development and support activity – including that of Business Links and LSC – because sector/cluster organisations have a broad strategic and delivery remit (e.g. for inward investment, marketing and promotion, business support provision). However, lining up the multiplicity of business support organisations behind a sector/or cluster plan is a difficult challenge and the actual results are still patchy.
- In effect, the West Midlands Cluster Action Plan and the Merseyside Sector Development Programme represent a 'commissioning' approach to activity by vesting overarching responsibility for bringing forward and monitoring projects in a single organisation, though it is too early to gauge the impact. The disadvantage of this approach is that it may exclude organisations or initiatives which have a potentially significant contribution to make.

4.65 Delays in the implementation of sector/cluster development programmes and the time it can take to realise impacts means it is **difficult to draw conclusions about the impact and effectiveness of interventions**. Individual sector or cluster plans for the programmes we reviewed were agreed between 2002 and 2004, and some have only just begun to generate projects. However, there is some evidence of the types of interventions that are perceived as being successful:

- The **formation and stimulation of networks** by sector or cluster organisations (e.g. Sector Champions). This appears to be particularly effective where key industry player and public bodies had established networks in place before O1/O2 programmes began.
- A directly related benefit from this network development has been the **connection of research institutions** (universities and specialist centres) to sector/cluster activity. Indeed, in some cases, they are its core organisation.
- The provision of **specialist premises**. Both MerseyBIO on Merseyside and the Advanced Manufacturing Park in South Yorkshire are ERDF funded projects which have enabled the development of specialist facilities. They have provided the platform to house and support commercial spin offs (MerseyBIO) and attract leading cluster organisations to locate in the programme area (Advanced Manufacturing Park) which may help in networking.

Esymbio
<p>Esymbio is designed to enable Merseyside's Life Sciences sector to generate critical networking activity between researchers, business users and other organisations (eg. medical) with sectoral interests. This ICT resource has created specific virtual communities of interest (eg. a Bioimaging exchange) allowing the sharing of information, document storage and on-line exchanges and information retrieval. Current information about innovations, products and processes is seen as essential to sector development and competitive advantage.</p>

Advanced Manufacturing Park
<p>This £10.2m project – with an ERDF component of £3.1m - provides a large, serviced site to facilitate the development of the Advanced Manufacturing (aerospace, automotive and metal medical applications) clusters of South Yorkshire and the Yorkshire and Humber region. It includes large specialist premises which have been taken up by major research organisations and key commercial players, incubator space for new SMEs, conference facilities and office space.</p>

- 4.66 A more challenging area has been in the provision of specialist business support. In some cases there have been specific projects to deliver business support interventions that are tailored to the needs of members of individual sectors/clusters (for instance in relation to creative, digital, biotechnology and automotive/aerospace). In some cases this has led to the creation of separate delivery bodies (in some senses competing with mainstream support), whilst in others the focus has been on working through the Business Link network. The downsides may be issues over the quality of provision and a lack of integration into the wider enterprise support network, though our reviews suggest that the latter issue is being tackled. It is fair to say that no magic solution has been found to this dilemma.
- 4.67 Our reviews did not suggest that the designation of eligible areas in the O1 and O2 programmes – and the existence of non-eligible areas – had proved to be a particular problem. However, sector and cluster development relies on the location of companies in an area, the presence of research facilities and the availability of the appropriate skill sets and supporting infrastructure (e.g. premises). The geographical eligibility criteria may have limited the contribution of ERDF funding to this type of activity and has no economic logic. From a cluster development perspective the move to regional-wide support in future programmes is therefore welcome.

### Lessons for Future Programming Approaches

- 4.68 Our work has identified six key messages relevant to future programming approaches.
- 4.69 **Scale of Resources for Cluster Activity.** At one level, there is a persuasive intellectual case for a large concentration of economic development resources on a few sectors/clusters

based on the argument that could deliver the biggest impact on a regional economy (as opposed to a less focussed approach or one based on identifying types of firms with growth potential or those using certain technologies). However, it is important to note that the evidence base supporting the idea that public sector intervention can markedly impact on the success of clusters generally, or indeed in specific areas, is currently weak. Furthermore, the analysis that has led to the selection of particular clusters and the regional priorities is not in all cases hugely robust. We would sound a note of caution, therefore, in the extent to which future programmes put too many eggs in the cluster basket. This suggests that, coupled with cluster support, there should be a broader based approach to supporting business competitiveness.

- 4.70 **Spatial Levels for Interventions.** It is not clear that the regional level is the right spatial scale for cluster development. Sub-regions may have strengths in particular technologies, sub-sectors and sectors which are distinct from regional priority clusters. Equally, there are some sound arguments for pan-regional or even national approaches. The means have been found to accommodate these differences, such as subsuming a sub-regional cluster into a broader regional cluster or making sub-regional cluster activity the central pillar of the regional cluster. However, a degree of care will be necessary in future programmes to ensure that strongly performing sub-regional clusters continue to receive support.
- 4.71 **Strategic Alignment.** If clusters are to be supported, then there is absolutely no case for a separate approach being adopted in any future programmes from that of the relevant RDA. There should be complete strategic alignment in terms of support. The use of a single cluster programme action plan, or a set of action plans, managed by the RDA appears the most effective approach (with resources matched). There should be no major barrier to accommodating sub-regional activity. Also, it has the added advantage of encouraging a portfolio of interventions with a sensible set of global output and impact targets.
- 4.72 There are two caveats to this strategic alignment point:
- Given limited future ERDF resources there may be a case for future programmes only supporting a sub-set of the regional target clusters; and
  - There is some evidence (albeit not quantitative) of differing impacts and success of types of cluster support. There may be a case for focussing on certain types of intervention.
- 4.73 **Timescales.** Cluster development has a long gestation period and outputs, results and impacts frameworks need to be adjusted accordingly. However, future development of targets should have cognisance of the extent to which there has already been systematic investment in cluster development since 2000.
- 4.74 **Attitudes to Risks.** Finally, sector/cluster development involves an element of risk-taking implicit in any targeting process. It is helpful to recognise that investing in clusters could be seen in a portfolio sense – a mixture of higher risk, higher reward clusters focused on emerging technologies and investment in more traditional strengths in a region). Seen in this light, if some cluster interventions prove unsuccessful this does not matter so long as the overall investment in all clusters bears sufficient fruit.

#### **Lessons at a Project Level**

- 4.75 The early evidence is limited, but our reviews suggest that the types of cluster development support which are most effective are:

- The **stimulation of networks** within clusters to facilitate the process of sharing so-called “tacit” knowledge that is a feature of strong clusters. There needs to be recognition that networking, awareness raising and promotional activity are not easily captured as outputs or results in the current reporting frameworks.
  - **Connecting relevant research institutions** with firms in the cluster (physically or virtually)
  - The provision of **specialist premises** (where this is relevant to the cluster) to encourage networking and the interface between firms and the supporting institutions, or to meet specialist needs.
- 4.76 The evidence on the benefits of developing separate business support organisations or programmes is mixed and less clear cut, with pros and cons which reflect the extent to which there are specialist needs which can be delivered effectively by mainstream provision. There should be a degree of healthy scepticism towards the separate delivery approach, especially where projects are driven by organisations (HEIs or others) wishing to supply services.

## Case Study Five: Enterprise in Deprived Communities

### Context and Rationale

- 4.77 The case study considered the way the Structural Fund programmes were tackling the policy area of enterprise in deprived communities. This is an area of government policy where there have been very significant changes in the focus and delivery mechanisms over the last 6-7 years.
- 4.78 The policy challenge offered by low rates of enterprise (in the sense of rates of business start up or the density of businesses per head of population) in certain enterprise cold spots in the UK is a key strand of government thinking. The challenge was identified by HM Treasury and DTI and led to the designation of some 2,000 enterprise areas in the UK in 2003, along with a raft of new policies and forms of support aimed at increasing rates of enterprise. These strands included some fiscal incentives in the Enterprise Areas (lower rates of stamp duty on certain transactions), support for new forms of community finance and other assistance.
- 4.79 The other important policy shift in relation to enterprise has been the relative importance accorded to mainstream business support. Until relatively recently, Business Link resources were targeted on existing firms with growth potential, and public support for micro firms and start-ups was funded/delivered through a range of disparate programmes. However, enterprise support is now a core part of the Business Link offer (now managed by RDAs). Recently, there has been the development of the Local Enterprise Growth Initiative (LEGI), which is intended to encourage enterprise in the most disadvantaged local authority areas in England, and these will be developed in successful bidding areas.
- 4.80 However, the approach to enterprise in deprived communities in Structural Fund programmes has fallen into two areas:
- First, as part of the Community Economic Development (CED) strand of the programmes. Spatially focussed interventions for designated CED areas are intended to improve the competitiveness and performance of these locations and their residents and businesses. The philosophy behind CED was developed in the 1990s at a time when it was in many respects different and distinct from UK government policy. Great emphasis was placed on capacity building and developing locally driven bottom-up approaches. In the current programmes community and social enterprise is often the main strand of enterprise support under CED.
  - Second, as part of the business competitiveness strand, where support for enterprise is area-wide. However, there are different dimensions relevant to deprived communities that have been developed here, including projects targeted on particular groups where rates of enterprise are low (e.g. black and ethnic minority communities, young people, women and disabled groups).

### Effectiveness of Approaches and Interventions

- 4.81 As stated above, support for enterprise in deprived communities is an especially challenging task for Central Government and regional and local agencies. This review suggests that to date it has not been a well designed feature of most of the Structural Funds programmes reviewed. There are several key messages:
- The focus within the CED measures has been on a basic level of capacity building (e.g. community centres; support to provide community services; development of

sustainable models for community facilities) and on support to social and community enterprises.

- There has been little focus on activity to help to establish private micro-enterprises and SMEs in deprived areas (the split between enterprise support in CED priorities and mainstream enterprise support has been unhelpful in this regard).
- The programmes have not systematically sought to “stimulate demand” for support to start new enterprises or encourage a more entrepreneurial culture in disadvantaged areas. There has been some outreach activity by mainstream business support network and specialist organisations to encourage would be entrepreneurs to walk through the door, but there do not appear to be concerted campaigns designed to significantly increase demand.
- Measures designed to assist SME formation and developments refer to the targeting of deprived communities, but there is little evidence of concerted efforts across the programmes to put this commitment into practice. The result is a fragmented picture of ERDF-funded support for enterprise in disadvantaged areas; in part this is of course driven by the fragmented nature of the geographies of CED areas.
- Finally, the relative success of the role of measures to help residents in deprived communities access wider employment opportunities (especially in the context of large scale economic and employment growth and increasingly tight labour markets) was contrasted in a number of programmes with the “return” on supporting enterprise. This raises the issue of the relative value for money of efforts to target enterprise as opposed to training/employment access, as a way of improving incomes and social cohesion.

4.82 Of the programmes we have reviewed, the London Objective 2 approach seems to be most effective, combining measures that are delivered by major organisations such as the LDA and Business Link with a sub-regionally devolved system for identifying and assisting good projects. But the reasons for its success may relate at least as much to the nature of the region’s economy and the providers of support, as to the design of the programme and measures. London represents a huge, and in many areas affluent, market for new entrepreneurs while some of its most disadvantaged communities live in close proximity to the most prosperous areas. This provides an environment which is in important respects considerably more conducive to enterprise than most of the UK. The challenges are to give would-be entrepreneurs in deprived areas the support to start a business and then promote their sustainability by linking them to the significant market around them.

4.83 The characteristics of residents in deprived communities starting businesses (lower levels of education, fewer role models and informal sources of advice, heavier reliance on benefits, lack of equity) mean that they often require more intensive assistance. However, our reviews suggest that the business support services they seek and need are largely those sought by all types of start ups and fledgling enterprises: advice and guidance about initial business planning, marketing, accounts and taxation issues; access to loans and grants; ongoing support in early days of business; signposting to specialist support and other sources of finance; and support for expansion.

4.84 A critical factor in effective enterprise support for disadvantaged areas appears to be the experience, commitment and resources of organisations that deliver it. Smaller organisations with established track records in a locality seem to possess advantages in **providing directly or providing a route to enterprise support** for residents in deprived areas. This

might be described as the “Heineken effect” of reaching residents that other agencies cannot reach, because of the locally rooted nature of such organisations. Often mainstream business support is less well equipped to offer such services and is criticised for being insufficiently sensitive to the assistance that first time entrepreneurs in disadvantaged areas require.

**Tower Hamlets Women’s Enterprise Project, Account 3**

This project provides advice and guidance for women entrepreneurs looking to establish small businesses. It is run by Account 3, a long established organisation with a very good reputation in the community in which it operates. It has set out to address an evident gap in the provision of support to women and it’s location has enabled it to reach entrepreneurs in a disadvantaged area of London.

4.85 What are these specific requirements, and why do the organisations (whose projects we have reviewed) have advantages in meeting them?

- They have an extensive client base in deprived areas as a result of being long-established and having effective outreach activities that target entrepreneurs in harder to reach groups.
- They have a better understanding of the particular needs of clients on issues such as state benefits and experience of providing related advice. Here, the experience, and mission of the organisation are important factors.
- While providing a highly professional service, they are seen as more approachable than the larger business support organisations. Again, experience, location and mission are crucial here.

4.86 In our review of projects and search to find good practice examples, we were struck by the relative success of projects and organisations focussed on enterprise needs of target groups across programme areas (communities of interest) rather than more local areas (although there is often an overlap between the two). Clearly, there are shared challenges and advantages in developing particular expertise in working with certain groups (such as the Princes Trust and young people).

**The Business Spirit, Prince’s Trust, West Midlands**

This project aims to substantially increase access to finance, advice and support for disadvantaged young people aged 18-30 in the West Midlands. In tandem with an ESF loan fund, it offers start up and expansion loan funds and small grants, test marketing grants, advice and planning guidance and access to business mentors.

**Lessons for Future Programming Approaches**

4.87 **Simulating and Supporting Enterprise.** Careful consideration needs to be given towards relative resource deployment in stimulating and supporting enterprise in deprived communities as opposed to measures to help these residents access employment. In a time of tight labour markets the return on the latter, in terms of improvements in incomes and life chances, may be considerably higher. However, we accept that with the proposed structure of the new programmes (with separate ERDF and ESF programmes), there may be little scope to influence the allocation at a regional level. A related point is that context matters. The capacity of an area to generate sufficient demand for the products or services of a new business should be a significant factor in determining resource deployment.

4.88 **Focus of Enterprise Development.** If the objective is to encourage greater rates of entrepreneurship amongst residents of deprived communities then we **doubt whether the past Community Economic Development focus of programmes and support is the best way forward.** Community economic development and what it is associated with in

terms of enterprise support (social and community enterprises) has its place. But it should not be the main focus of support.

- 4.89 **Alignment with Mainstream Provision and Delivery Structures.** There is a strong national policy push towards reducing the number of schemes, projects and organisations involved with business (and enterprise) support. The role of Structural Fund programmes in the past has been to encourage a proliferation of additional or parallel support to the mainstream (although in some areas, such as the North East, strenuous efforts have been made to reverse this). The design of programmes needs to work with this new focus on **slimmer delivery** structures.
- 4.90 The starting point for intervention needs to be **concerted coordination**. There are dedicated sources of funding (e.g. Phoenix Fund, LEGI) which can make an important contribution. Also mainstream business support organisations are expected to increase their impact in disadvantaged areas. However, our reviews suggest that this activity remains disjointed and lacks strategic direction.
- 4.91 **Role of Structural Funds.** The role of Structural Fund programmes in relation to enterprise support could have two explicit main foci:
- Supporting the “**outreach**” role of enterprise support through projects and organisations that are effective in helping residents of deprived communities access mainstream support (and in some cases providing bespoke elements to this mainstream support). This work covers activities to stimulate interest in enterprise as well as guiding people into and through mainstream support.
  - Supporting larger projects that focus on stimulating and supporting enterprise **targeted on particular groups** facing common issues (which are not restricted to deprived communities). These would include young people, BME groups and other groups with low rates of enterprise and special support needs.

#### Lessons at a Project Level

- 4.92 **Delivery by smaller organisations** with a strong track record of operating in a locality should continue to be a feature of provision. The staff of these organisations and the services they offer are considerable assets and they appear to represent the best means of enabling entrepreneurs to navigate the complex landscape of business support.
- 4.93 The projects reviewed in the case study illustrate that, for the most part, potential entrepreneurs in disadvantaged area need the type of business support required by most start up businesses. However, projects must also **address particular needs** of residents in deprived areas, as they can represent additional barriers to launching a business (eg. advice on benefit payments; issues about suitable premises if business is run from home).
- 4.94 The current round of EU Structural Funds is drawing to a close and SRB is running out. As a result there is a good deal of **uncertainty about the continued provision of funding** to support private enterprise in deprived areas. For small organisations, this represents another chapter in their ongoing struggle to secure funding. The LEGI initiative will clearly help in some areas. But the funding process needs to work in favour of those organisations which have demonstrated a commitment to effective support for under-represented groups and enable them to sustain their work.

## Case Study Six: Workforce Development

### Context and Rationale

- 4.95 Action to develop the skills of the workforce has been a feature of all of the eight programmes reviewed, although the scale and relative importance of this activity varied between them. The intervention of the public sector in workforce development, in particular training for skills, has been a feature of local and regional economic development for many decades. More recently this has been led by the Training and Enterprise Councils and their successor bodies the Learning and Skills Councils.
- 4.96 Financial support for workforce development has been a common feature of Objective 1 and 2 programmes in England (although there has been an overlap with the Objective 3 programme in some aspects of workforce development in Objective 2 areas), often with a significant level of overall programme resource being allocated to these interventions (although this level hasn't changed greatly over the past decade). More recently the RDAs have taken greater responsibility for determining the strategic priorities for workforce development, informed by the Regional Skills Partnerships (which have been led by the Regional Development Agencies) and supported by the Learning and Skills Councils.
- 4.97 There have been a number of important policy shifts over the past 3-4 years at both a national and regional level which have influenced the use of ERDF/ESF resources for workforce development. The key points are:
- The publication of the national **Skills Strategies** (2003 and 2005), which increased the emphasis upon tackling key weaknesses in England's skills base in order to better support efforts to improve the UK's business competitiveness. This included an increased prioritisation on the extent to which the workforce are qualified to NVQ level 2 and 3, as well as basic skills and management skills.
  - A key theme of the Skills Strategy was the need for a more **demand responsive approach** - linking the training provision funded through the public sector to the needs of employers and the changing nature of the economy, as well as improved integration between workforce development and wider business support services (delivered through the Business Links). The strategy recognised that this has been a historic weakness of public sector led provision.
  - Supporting the development of a more demand focused approach, the Skills Strategy also provided the base for a revitalised approach to sector workforce development through the establishment of the **Skills for Business network** and the Sector Skills Agencies.
  - At a regional level, there has been a strong push more recently for improved planning of workforce development activity and its effective **integration into the business competitiveness agenda** on which RDAs lead. Linked to this has been the emergence of RDAs' cluster development strategies. **Regional Skills Partnerships** have been charged with setting the regional priorities, drawing together both the national and regional agendas and the coordination of activity through the LSCs and sector skills agencies.
- 4.98 The changing policy environment in recent years led to a number of significant changes in the manner in which ERDF/ESF resources are used within the Objective 1 and 2 programmes in England. The most significant change has been the adoption of the **co-financing approach**

to the use of ESF resources for workforce development activity. The approach, which matches LSC and ESF monies at source, is based on the proactive commissioning of activity. It is intended that the commissioning of activities is directly informed by an analysis of the needs of the economy, which is underpinned by sub-regional and regional skills priorities and the supporting evidence base.

4.99 In general, the rationale within the Objective 1 and 2 programmes for why public money should be used in workforce development tends to be assumed rather than being clearly articulated. The types of rationales include:

- **Supporting Business Competitiveness Agenda.** There is a wealth of research pointing to an insufficient investment in skills development and the manner in which this constrains the competitive performance of the UK economy compared to our major competitors. This is partly driven by the reluctance of employers to invest sufficiently in the skills of their workforce, given the risks associated with the mobility of staff and hence the failure to secure the return on investment. In addition, there are also constraints in terms of accessing the types of training and forms of delivery which suit their needs. In the case of employees, there is a reluctance to invest in developing their own skills due to a lack of information about the availability and benefits of training, difficulties in financing training, and practical constraints upon combining work with learning.
- **Supporting the Cluster Agenda.** In addition to the above, workforce development also plays a specific role in supporting the RDA's efforts to change the sectoral composition of the economy.
- **Supporting Enterprise.** The growth of start-ups and small firms is also a key policy objective, which is supported by workforce development both in general (basic and vocational skills) and through specific business and management skills provision.
- **Social Objectives.** Workforce development also supports wider social inclusion or distributional objectives though assisting people to achieve career and broader economic progression through skills development.

#### Effectiveness of Approaches and Interventions

4.100 This is a very complex area, with significant national, regional and sub-regional policy and strategy drivers, as well as complicated delivery structures and arrangements. Given the case study approach adopted, there is a limit to the extent to which the evaluation can provide a detailed insight into whether the shift towards the co-financing of ESF interventions has resulted in a more demand-driven approach to workforce development across the board. However, the available evidence suggests that the co-financing approach has enabled ESF funds to be used in a more strategic way, and is proving more effective in fostering alignment of Objective 1 and 2 workforce development activity with regional and sub-regional economic and skills development priorities.

4.101 The potential for activity to be skewed towards the Government's skills policy agenda should not be ignored. There is clearly a very important role for skills partnerships at a regional and sub-regional level to ensure alignment with local priorities – the more proactive partnerships have been able to achieve an effective balance between national and regional agendas.

4.102 It should be remembered that co-financing in itself is not a guarantee of demand-driven, responsive workforce development support. Although it is still relatively early to judge, the available evidence suggests that the increased emphasis on an evidence based approach is

influencing the type of provision which is being funded and the forms of delivery. There are also some notable projects which are proving extremely effective in tailoring their approach to the needs of the economy and the skill requirements of employers (such as Merseyside's SkillsWorks).

- 4.103 A 'portfolio approach' to workforce development has proved an important aspect of the co-financing approach in some areas. The ability to effectively engage with employers and to increase levels of training requires interventions which complement specific training activity - co-financing arrangements should be used to enhance both capacity building and linkages between different providers, as well as lowering the cost to SMEs of accessing training through improved information provision and signposting. This is a particular aspect of the approach which has been successfully adopted by **Lancashire LSC** as part of its co-financing of workforce development through the North West Objective 2 programme.
- 4.104 In the case of the **Yorkshire and Humber Objective Two Programme**, the approach to workforce development lacked a strategic, demand led focus, at least initially. There was little evidence of shared approaches across the Objective Two area. The effectiveness of the activities had also been hampered by the administrative arrangements between ERDF and ESF, and between the Objective Two and Three Programmes. However, in the latter stages of the Programme, there has been a shift to the use of Sub-Regional Investment Plans (SRIPs) and co-financing to guide workforce development in a more strategic manner. This approach is strongest in West Yorkshire, where the LSC has developed a major action plan through the SRIP process and has adopted a '**super co-financing**' approach that matches mainstream LSC funding with Yorkshire Forward Single Pot funding and ESF Objective Two and Objective Three funding.
- 4.105 A recent thematic evaluation of the linkages between workforce development and business competitiveness provision funded through the **Objective 2 programme in the North West** reached a number of conclusions which have a wider applicability. Both ERDF business support and ESF workforce development provision in the case study areas are well integrated with their respective sources of mainstream provision. However, the headline message was of limited integration between business support and workforce development, with structures of funding, types of measurement and mainstream funding routes being markedly different and often presenting significant constraints.
- 4.106 The evaluation has identified examples of innovative projects in both the Objective One and Objective Two Programme areas that offer a potential way forward for future funding programmes. A strong approach to workforce development has evolved as part of the **Merseyside Objective One Programme**, supported by a thorough analysis of the local economy. Key to this has been the innovative **Skillworks** project, led by the Greater Merseyside LSC. This "demand-led" project is tailored to the needs of the companies assisted, and is not driven by the need to secure qualifications as outputs. It is also integrated with a major business support initiative (Growing Business Merseyside) and cluster development activity (although this aspect of the project has performed less well).

Skillworks, Greater Merseyside LSC
Skillworks is a flagship co-financed workforce development scheme, which provides customised training for SMEs following a diagnostic of their needs and preparation of a workforce development plan. The key aim of the project is twofold: to help firms recognise their own needs and their workforce; and to build the capacity of the local training infrastructure to provide appropriate demand-led training to meet employers' needs. The project seek to provide solutions to firms' skills needs, rather than being driven by a top-down emphasis on securing qualifications.

### Lessons for Future Programming Approaches

- 4.107 Overall, there have been a variety of approaches adopted to improve the skill levels and productivity of the workforce across the Objective One and Objective Two Programmes, and a number of common themes have emerged, which offer important insights for future Programmes.
- 4.108 **Alignment of National and Regional Policy Imperatives.** By channelling resources through nationally recognised bodies, co-financing offers a greater opportunity to link ESF funded activities with mainstream provision and to support the national Skills Strategy. However, it is important that efforts to align ESF to regional workforce development and business competitiveness priorities continue, with the RDAs providing an important lead in this area (with the assistance of the Regional Skills Partnerships).
- 4.109 **Demand Led Approaches.** A number of programmes have proved particularly effective in adopting more demand led approaches. The Merseyside Objective One programme is a good example of an effective approach to the strategic use of labour market information in the planning and commissioning of provision, as well as the development of projects which are very responsive to the needs of SMEs through the tailoring of their provision and mode of delivery. However, more generally there is a need for a more strategic approach to the collection and use of labour market information at a sub-regional level in particular.
- 4.110 **Integration with the Business Competitiveness Agenda.** Workforce development and other business development interventions that seek to boost the productivity and competitiveness of SMEs are complementary activities that should be planned in an integrated manner. However, experience has shown that this integration is rarely achieved. Given the separation of these activities into two separate programmes in the next programming period, this will be a challenge which needs to be tackled during the programme development process at two distinct levels: strategically it needs to be addressed at a regional level, whilst in terms of delivery it should be considered at a sub-regional level.

### Lessons at a Project Level

- 4.111 **Stimulating Demand.** A demand-led approach to workforce development provision needs to be accompanied with efforts to stimulate demand for the services. Providers must seek to stimulate employer interest, as opposed to relying on businesses identifying a “need” and then approaching the providers. There are two key reasons for this: firstly, to overcome scepticism among SMEs that may have received support in the past that has not been tailored to their needs (i.e. was supply driven); and secondly, to raise awareness among SMEs themselves, not all of which will be fully aware of their workforce skills needs (vis-à-vis other business development issues).
- 4.112 **Portfolio Approaches.** The ‘portfolio approach’ to workforce development is an important aspect of the co-financing approach. The ability to effectively engage with employers and to increase levels of training requires interventions which complement specific training activity - co-financing arrangements should be used to enhance both capacity building and linkages between different providers, as well as lowering the cost to SMEs of accessing training through improved information provision and signposting.
- 4.113 **Flexibility of provision.** It is important that overcoming the barriers to SMEs participating in skills development activity is built into the design of the provision. Provision must be flexible in terms of where it is delivered (e.g. on employers’ premises), how it is delivered (e.g. bespoke and specialised training and specialised non-validated short courses) and when

it is delivered (e.g. outside traditional provider working hours) and who delivers it (e.g. from any LSC-accredited provider). Projects such as Skillworks have demonstrated the strength of this flexible approach, as well as an approach which plays down the emphasis on funded training activity leading to formal qualifications.

- 4.114 **Combining ERDF and ESF resources.** There are instances where the combined use of both funds has proved particularly effective in meeting the needs of SMEs (e.g. the use of ERDF for diagnostics and ESF for follow up training in a combined package is an approach adopted in Merseyside). This scope to use this as a mechanism for delivery needs to be built into the design of the successor ESF and ERDF programmes.

## Case Study Seven: Worklessness and Economic Inactivity

### Context and Rationale

- 4.115 The focus of this case study is on interventions that seek to tackle high levels of economic inactivity, both in general and amongst specific communities and groups. Historically, labour market policy across the UK has focused upon tackling high levels of unemployment, as well as helping the economically inactive to enter the labour market and gain work. These measures serve both economic and social policy agendas. More recently, there has been an increased emphasis specifically upon tackling the growing level of economic inactivity, with a particular focus on addressing the concentration and persistence of Incapacity Benefit claiming amongst disadvantaged groups and in deprived communities.
- 4.116 As noted briefly above, in policy terms there has been a major national debate on employability and participation issues which has led to a variety of important policy responses. The Government's recent Green Paper, '*New Deal for Welfare: Empowering People to Work*', seeks to strengthen this approach further. Key aspects of the approach which has emerged over the past 2-3 years include:
- The development and roll-out of the **Job Centre Plus 'model'**, with an emphasis on providing a more customer centered approach that integrated job search assistance and benefits services;
  - The piloting and subsequent roll-out of Jobcentre Plus' **Pathways to Work Programme** that is aimed specifically at Incapacity Benefit claimants (including a greater emphasis on more effective targeting and intensive forms of support for claimants, as well as continuing support for the unemployed and inactive who gain work);
  - An increased emphasis on the **coordination of provision between key agencies** dealing with worklessness and workforce development, including Job Centre Plus, LSC and Connexions.
- 4.117 At a regional level the need to tackle high economic inactivity (and to lesser extent more recently high unemployment) has been a priority for most regions, although the emphasis in the more successful regions has been upon tackling the high concentrations of inactivity that persist amongst particular groups and communities. More recently the RDAs have shifted their focus to high levels of economic inactivity, although the extent to which this is seen as a means of tackling economic underperformance as opposed to meeting immediate skill needs varies both between regions and often between different locations within regions.
- 4.118 Tackling high unemployment and economic inactivity has been a key theme of the Structural Fund programmes across the UK over the past two decades. However, it is only recently that many of the programmes have actively sought to reprioritise between these activities, with a growing emphasis upon tackling economic inactivity in light of the decline in unemployment. The programmes usually provide a clear rationale as to the need for the public sector to intervene - typically distinguishing between **active labour market** and **community economic development** rationales.
- 4.119 The organisation of interventions aimed at tackling economic inactivity is not uniform across Objective 1 and 2 programmes. The Objective 1 areas explicitly seek to address worklessness and participation issues and hence include ESF resources for this purpose. However, in Objective 2 areas the availability of ESF resources for these interventions is limited to CED

areas. Objective 3 therefore provides the main vehicle for tackling these issues through the Structural Funds across the Objective 2 areas. Given that the focus of this evaluation was not upon the effectiveness of interventions funded through Objective 3, the case study has concentrated upon the Objective 1 areas of Merseyside and South Yorkshire.

### **Effectiveness of Approaches and Interventions**

- 4.120 The strategies adopted by the Objective One programmes included in the review are broadly the same – they recognise and emphasize that:
- The economically inactive are outside of the labour market for a variety of reasons. Some withdraw due to ill health or discouragement arising from not being able to secure the work and associated rewards they seek. Others are inactive voluntarily, possibly due to caring responsibilities or early retirement. However, evidence suggests that many economically inactive people want a job and would work if they had the right opportunity, incentive or path back into employment.
  - Economic inactivity is not simply a skills and employment issue. Many individuals outside the labour market often face multiple forms of disadvantage - poor health, low quality housing and deprivation can compound the problems facing the economically inactive. This has wider implications for community regeneration, the economic vitality of neighbourhoods and local capacity. Efforts to tackle economic inactivity in deprived communities needs to be linked to the wider sustainable communities agenda.
  - Interventions to tackle worklessness need to respond to the differing needs of different client groups. While some people currently not in work can be regarded as “job-ready”, others who are significantly further away from the job market may require more intensive support before they are able to commence job search and enter employment. The so-called “hard-to-reach” clients typically need more proactive forms of intervention to engage with them in the first place, prior to more traditional forms of assistance being provided.
  - There are a range of groups that are underrepresented in the labour market, and in which a higher proportion of people are economically inactive. These include groups which are being targeted by DWP, including: lone parents, black and minority ethnic (BME) communities and disabled people. These groups are often concentrated in deprived areas.
- 4.121 The case study suggests that in both the Objective 1 areas reviewed, ESF has been used in a fairly strategic way and has been effective in fostering alignment between Objective One priorities and interventions with regional and sub-regional economic priorities. This is typically harder to achieve with separate Objective Two and Objective Three provision.
- 4.122 Both Programme areas examined demonstrated strong approaches to tackling economic inactivity, although these have tended to evolve over time in light of the shift in the emphasis of worklessness and broader labour market policy, as well as the emergence of new organisational and delivery approaches at a sub-regional level (especially in the case of Merseyside).

4.123 The Merseyside Objective One programme is a good example of how the strategic approach has evolved in light of changing national policy and local economic conditions. In Liverpool the increased role of the LSP (supported by JC+ and the LSC, through a shared Employment Action Plan) has been instrumental in fostering a more strategic approach across the city and the use of ESF to add value alongside other domestic funding streams. Whilst it is still too early to assess the impact and effectiveness of interventions carried out under the Liverpool LSP approach, this approach does have the potential to add value to existing ESF economic inactivity interventions by more closely aligning efforts to tackle economic inactivity with wider community regeneration.

**Liverpool Employment Plan, Liverpool LSP**

The Liverpool Employment Plan (LEP) was developed by the LSP. Its primary focus is on establishing and implementing employment and economic inactivity priorities in relation to Liverpool's Community Strategy and Neighbourhood Renewal Strategy. The LEP has a particular focus on wards in which economic activity is highest (the ten Pathways Communities, covering 70% of the city's population). It draws down a mixture of funds, including Objective One ESF (Priorities 2 and 4) and ERDF, and Neighbourhood Renewal funding from ODPM.

4.124 The Merseyside Objective One programme has also adopted an approach that has sought to develop strong linkages between deprived communities (in which economic inactivity is concentrated) and the major employment sites which are being brought forward as part of the programme. This approach emphasises not only the assistance that gets people with diverse needs to a point where they are 'job ready', but also the transport issues which can act as a significant barrier to gaining and retaining work.

4.125 In the South Yorkshire Objective One Programme, both of the projects that were examined are well aligned with DWP priorities, and have a strong emphasis on supporting lone parents, disabled people and BME communities. The ILM/TLM approach is well integrated with mainstream priorities at different spatial levels.

4.126 The VCTrain project is a good example of a collaborative approach between voluntary and community sector organisations. The strength of these organisations lies in their knowledge of, and the trust they have been able to foster with, particular target groups and communities. The collaborative approach has helped to bring different VCS organisations together, providing economies of scale in seeking and managing the funding process (which has become more rigorous since the introduction of co-financing). For the co-financing organisation, the collaborative approach has provided a stronger delivery partner with which it can contract for interventions with this challenging area (such as LSC and JC+).

**VCTrain – Voluntary and Community Sector Training Consortium**

VCTrain is a consortium of voluntary and community sector (VCS) bodies in South Yorkshire. It focuses on three target groups that are severely under-represented in the labour market in South Yorkshire: lone parents, BME communities and disabled people. The project seeks to address the key barriers facing people from these target groups in accessing the labour market, and to provide routes into accredited learning and employment. Beneficiaries receive a tailored individual learning and employment plan.

**Lessons for Future Programme Approaches**

4.127 Overall, there have been a variety of approaches adopted to tackle economic inactivity across the Objective One and (to a much lesser extent) Objective Two Programmes. Nevertheless, a number of common themes have emerged, which offer important insights for future

interventions. Some of the recommendations are also relevant to the use of ESF in workforce development.

- 4.128 **Coordinated, Strategic Approach.** Tackling the concentration and persistence of economic inactivity is complex and there are no easy solutions. It requires a much more strategic, coordinated approach that draws together the expertise and resources of national organisations such as the JC+ and the LSCs, as well as the local knowledge of the LSPs, local communities and providers. Many partnerships are making progress in this area, often through their Local Area Agreements – however, there remains a great deal which can be done to strengthen the approaches, in part through learning from those partnerships which have implemented successful approaches. ESF resources should be aligned behind these local strategies (whilst also supporting the national priorities of DWP), rather than forming the basis for strategies in their own right.
- 4.129 **Integration with the Wider Sustainable Communities Agenda.** As highlighted earlier, the concentration of high levels of economic inactivity in deprived communities and amongst particular groups is often a consequence of multiple factors including skills, access to jobs, caring responsibilities, health, crime and housing. Successful approaches to tackling economic inactivity recognise this and have adopted approaches which not only respond to the multiple barriers to gaining and retaining work, but also integrate well with the wider neighbourhood regeneration efforts.
- 4.130 **Innovation and Risks.** Related to the above point, the emphasis on using ESF to explore new ways of delivering agreed strategic priorities should continue. In this sense, ESF should be less risk averse than mainstream provision and should be used to trial new approaches. The extent of the degree of freedom and autonomy to innovate may be a crucial aspect of bringing partners into the 'fold'.
- 4.131 **Role of the Voluntary and Community Sector as Delivery Partners.** These sectors can play a very important role in working within deprived communities and with target groups. Their strength lies in their knowledge of, and the trust they have been able to foster with, particular target groups and communities. However, co-financing has presented a significant challenge to the continued use of ESF funds for many of these organisations. JC+ and LSC have an important role to play in encouraging these organisations to build their capacity and expertise, for example through collaborative approaches, so that they can be effective delivery partners for these groups and communities.

#### **Lessons at a Project Level**

- 4.132 **Tailoring Support to the Needs of Target Groups.** It should also be remembered that whilst there may be common issues among people in target groups, support should be tailored to individual circumstances. Interventions should recognise the heterogeneity of different groups with regard to different barriers to labour market participation. Furthermore, some people will be far away from the labour market, and will need progression routes into training before they are ready to enter the world of work. Also the extent to which access to transport can present a barrier to gaining and retaining work should not be underestimated, even in urban areas with apparently good transport systems and accessibility.
- 4.133 **Need for High-cost Intensive Interventions.** Many economically inactive people need significant investment in many aspects of their life before they can enter (or re-enter) the labour market. Consequently, intensive support is often required, often involving multiple interventions, which can be expensive for mainstream volume providers to include within their core budgets. However, it is also important to note that it is not always the case that

economically inactive people will need to have high cost interventions - getting people into work or a work placement quickly can be very beneficial.

- 4.134 **Need for 'Distance' from Mainstream Provision.** There is often a high degree of scepticism (and cynicism) about mainstream providers such as JC+, in deprived communities in general but especially amongst so called 'hard-to-reach' target groups. It is important that provision can be positioned as 'community-led', even though in practice these mainstream organisations may be partners in the delivery of these services. Often it is necessary to have both mainstream and non-mainstream assistance available to tackle these issues of suspicion and cynicism amongst the clients groups.
- 4.135 **Linking Need and Opportunity.** The current strength of the labour market in many locations provides an important opportunity to help the more disadvantaged gain work. The approaches adopted in New East Manchester demonstrate that for local people to benefit from major employment creating developments, there is a need for a proactive partnership approach between the public sector and employers, underpinned by the breadth of provision that gets people 'job-ready' and suitable for interview/recruitment.
- 4.136 **Monitoring impacts.** There is a need to consider how impacts can be monitored more effectively, whilst minimising the burdens on projects. By its nature, it is both difficult to monitor 'progression' and resource intensive if it is to be done robustly. A region wide approach provides a more cost-effective way of monitoring progress than an individual project approach and the possibility of adopting a common means of assessing progression.



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