EVALUATION OF THE MAIN ACHIEVEMENTS OF COHESION POLICY PROGRAMMES AND PROJECTS OVER THE LONGER TERM IN 15 SELECTED REGIONS

(FROM 1989-1993 PROGRAMMING PERIOD TO THE PRESENT)

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Case Study North East England

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PREFACE

This report presents the Pilot Case Study for North East England as part of the study 'Evaluation of the Main Achievements of Cohesion Policy Programmes over the Longer Term in 15 Selected Regions (from 1989-1993 Programming Period to the Present)' which is being managed by the European Policies Research Centre and London School of Economics.

The research was conducted over the period December 2011 to May 2012. It should be noted that as this is a pilot regional case study report some modifications may be made in the light of work within the main phase of case study development and drawing upon the analysis across all 15 regions. A final version of this report will be submitted in November 2012

The Pilot Case Study has been drafted by Professor David Charles and Rona Michie, EPRC. The authors are grateful to a considerable number of individuals in the North East of England who participated in the study and provided valuable insights as well as assistance in tracking down other interviewees. The complete list of interviewees is listed in Annex IV at the end of the report.

Contents

Table of figures

List of abbreviations

CED	community economic development
CEO	chief executive officer
CLG	Department of Communities and Local Government
DEFRA	Department of Environment, Food and Rural Affairs
DTI	Department of Trade and Industry
EAGGF	European Agricultural Guidance and Guarantee Fund
ECU	European Currency Unit
EDF	Electricité de France
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
FOA	field of activity
FTE	full-time equivalent
GDP	gross domestic product
GVA	gross value added
HEFCE	Higher Education Funding Council for England
HEI	higher education institution
HESIN	Higher Education Support for Industry in the North
HP	Hewlett Packard
HRD	Human resource development
ICT	information and communications technology
IDOP	integrated development operation plan
LEP	local enterprise partnership
MSc	Master of Science
NAREC	New and Renewable Energy Centre (later National Renewable Energy Centre)
NE	North East
NEL	Northern Enterprise Limited
NSC	Newcastle Science City
NUTS	Nomenclature of Territorial Units for Statistics
NVQ	National Vocational Qualification
OECD	Organisation for Economic Co-operation and Development
ONE	One North East
PMC	Programme Management Committee
PNE	Project North East
PR	public relations
PVC	pro-vice-chancellor
R&D	research and development
RCE	Regional Competitiveness and Employment
RDA	regional development agency
RDPE	Rural Development Programme for England
RES	regional economic strategy
RITS	Regional Innovation and Technology Strategy
RITS	Regional Innovation and Technology Transfer Strategy
RTC	Regional Technology Centre
RTD	research and technological development
SHiNE	Strategic Horizons in the North East
SMART	Small firms' Merit Award for Research and Technology
SMART	specific, measurable, attainable, realistic, timely
SME	small and medium-sized enterprise
SPD	single programming document
SRB	Single Regeneration Budget
TA	technical assistance
TAWSEN	Tyne and Wear/South East Northumberland
TEC	training and enterprise council
TRB	Translation Research Building
UNE	Universities for the North East
VAT/PAYE	value added tax/ pay as you earn

EXECUTIVE SUMMARY

The regional development context

Throughout recent decades the North East of England has been one of the poorest performing regions in the UK. The region's problems are complex, multiple and integrated. At the heart of the problem has been insufficient jobs and low productivity, leading to low GDP, but this has been caused by the legacy of past sectoral development and decline, a heritage of employment in large-scale manufacturing and primary industries, low levels of entrepreneurship and low levels of innovation. Industrial restructuring created physical and territorial challenges in abandoned sites and communities, but also communities without the high level human capital needed for success in the knowledge economy. Over the 1989-2012 period, there was initially a continued weakness of the region with a reduction in competitiveness relative to the rest of the UK, as seen in a falling level of relative gross value added through the 1990s. However, the early 2000s were a period of moderate convergence, with the halting of the decline in relative GVA, growth in employment and numbers of SMEs and an improvement in other indicators such as R&D. However, the essential problems of the region remain largely unchanged, and the current financial crisis has shown the region's lack of resilience, but with some modest improvements in enterprise and innovation.

The relevance of ERDF programmes for North-East England

The North East of England has been eligible for ERDF throughout the period from 1989 to the present, initially as Objective 2 (with some Objective 5b areas), and more recently as a Regional Competitiveness & Employment (RCE) region. It is estimated that €3.2 bn of ERDF was allocated to the region over this period, the high point being the late 1990s and early 2000s.

The region started with a weak institutional base, lacking a regional development agency, although one was established later. So in 1989 the regional partners designed a programme that recognised the region's problems, but which was unable to tackle all of them. The ensuing focus on infrastructure was a decision mainly driven by inexperience, national government restrictions, and a desire to channel funding to local authorities. From 1994, the scope of the programmes was much greater and funding was directed to multiple needs, and through a wider set of public and private agencies. Whilst there was a problem of trying to do too many things at once, which meant resources were spread thinly, there was a dominant model of development focused on the attraction and embedding of mobile investment, attempting to create jobs in the short-term whilst also raising productivity and shifting to new growth sectors. This had some success, but the region continued to lag national growth rates, and the mobile investment flow began to dry up.

As a consequence, the programmes in the 2000s became increasingly focused on longer term development through entrepreneurship and innovation. Inevitably, though some of the region's needs have been neglected. By focusing on enterprise and innovation to ensure critical mass in funding in these areas, the 2007-13 programme withdrew from general physical and community regeneration. Overall, the programmes have improved in their relevance and prioritisation in order to give greater chance of impact, but the scale of the problem in the weaker areas is such that their needs are not being fully addressed.

The effectiveness of ERDF spending

The programmes have experienced mixed results in effectiveness in achieving their objectives. At a programme level transformational objectives were set in terms of significant changes in GVA and employment which were unlikely to be achieved by the level of investment from the programmes. So whilst GVA grew, the region was unable to make much progress in closing the gap with the rest of the UK. A key problem therefore was with unrealistic expectations.

In the 1989-93 programme achievements were not reported in any detail and emphasis was only placed on the actual delivery of projects. The 1994-96 programme, by contrast had detailed indicators relating to outputs and expected results in terms of jobs created. However, it had great difficulty in meeting targets, both at an aggregate level where it only reached 14,633 jobs against a target of 41,900, but also within specific measures. The 1997-99 programme, had similar problems, underachieving in jobs created with only 13,267 net new jobs against an SPD target of 21,215. Again many measures failed to reach output targets.

The 2000-06 programme was felt to have achieved its objectives in helping to create 38,000 net new jobs and adding around €2 billion turnover to local SMEs although this was clearly short of the shift in regional GVA also proposed for this programme. This programme has probably been the best in terms of delivery against objectives though with good integration between the ERDF and other national and regional policy. Most recently the 2007-13 programme seems to have been meeting its objectives in terms of numbers of new businesses but is struggling with job creation given the extremely adverse conditions of the global financial crisis and austerity budgets in the UK,

At a measure level, in general there was a mixed performance in meeting targets. Infrastructure was well delivered although the results often lagged behind the targets in programme final reports. These investments are delivering achievements beyond their immediate programmes. The region has also had good results in the development of major cultural projects which have met their immediate targets and contributed to a wider process of culture-led regeneration.

On business support, the results are less convincing with problems of some projects delivering very low levels of support to large numbers of firms and hence being ineffective. More recently, more focus has been achieved but questions remain as to the level of impact of interventions. Support for start-ups has been more successful although again mixed and start-up rates did increase in the region in the 2000s up until the financial crisis. Innovation has also been an area of some success with good progress in meeting implicit objectives to encourage greater engagement by the universities in the region and in collaboration with each other.

Community economic development was a less successful activity and usually failed to meet its employment objectives although there have been wider benefits to the communities involved. Achievements have been limited by the small scale and large number of projects.

During the late 1990s and more particularly the 2000-06 programme there was a strong ESF component in the regional programmes with clear synergies between the ERDF and ESF elements. One particular area of synergy was the development of packages of projects targeting particular communities and integrating ERDF and ESF measures. Since 2007, though, the ESF has been removed from the regional programme and there seems to have been little connection between the regional ERDF and national ESF programmes.

Complementarities of ERDF funding with domestic policy

Complementarity with domestic regional policy has been strong throughout the period with the ERDF providing additional resources to domestic programmes in the region. With the formation of the regional development agencies and the Single Programme there was a significant fund available in the region which could be used to match fund ERDF projects. Although this synergy was slow to emerge, from 2007 the ERDF became essentially a supplement to the much larger NE single Programme and was tightly integrated in terms of objectives and financial matching, although the abolition of RDAs and Single Programme have removed this linkage.

The utility of ERDF programmes

The regional needs across all of the programming periods were to some degree met by the objectives of the programmes. Thus, whilst in all periods the region's needs were at least partly met, strategic choices affected the degree to which particular needs were addressed. Arguably the region's real needs are still best summarised as a shortage of jobs and insufficient high value added economic activity, and whilst programmes have made a contribution towards these needs, it can be argued that the achievements are less impressive than the region would have liked to see.

In the 1989-93 period the programme made a good contribution to infrastructure and derelict land but had limited effects on any of the other long term problems of the region. The subsequent 1994-96 and 1997-99 programmes continued with some of this activity and also tried to influence regional performance in job creation and enterprise etc, but with limited effects in the short term. It may be argued that the impacts of these programmes were really only experienced in the 2000s. Certainly it is in the 2000-06 period that there was a clear improvement in the region's performance. Performance of the region in terms of GVA, employment, innovation and enterprise all improved in this period.

Despite current difficulties though, the region is undoubtedly a better place in which live than it was in the 1980s. The regeneration has removed a number of the larger and more prominent derelict sites, especially in strategic locations such as around the city centres, replacing these with new homes and offices, business parks, leisure facilities and industrial parks. The commercial property market in the region was rebuilt from a situation where the private sector would not invest in commercial property as it could not guarantee a return on investment. The region has been particularly successful in culture-led regeneration which has created high quality new cultural facilities with impacts on tourism, quality of life and social cohesion through extensive community outreach programmes. The most important effect though has been the creation of a positive external image which has made it easier to attract people to the region and has therefore helped offset one of the region's principal disadvantages.

The scale of the problems faced by the region has meant that the challenge of making considerable change was always likely to be greater than the resources available. However, there remain considerable problems yet to be addressed such as low levels of productivity, an underperforming private sector with poor levels of entrepreneurship and innovation, high levels of unemployment and worklessness, and some areas still in need of regeneration. Some of these challenges have been exacerbated by recent developments since 2008 as the region has been hard-hit by the global financial crisis and by subsequent austerity policies from the current government, illustrating the fragility of the region in spite of improvements.

What learning has taken place?

The value of a regional strategy and the process involved in creating a strategy which has wide acceptance within the region has been clearly demonstrated. The sophistication of strategies has evolved over time and this provided a framework within which measures and projects could be better tied to regional needs, and learning from previous rounds of investment could be incorporated. However, this is now at risk following the abolition of the regional development agency and regional economic strategy.

In the design of projects, experience within the North East has shown that large-scale projects can be more effective at times than large numbers of small projects and can achieve critical mass in making the desired changes. Quality of project and delivery also matters. This has been recognised in the shift to larger strategic projects, although this has also been partly driven by desires to reduce the administrative burden, which may not be a good reason on its own for such changes. Large size is not always a guarantee of project success, and some smaller projects focused on enterprise or community development can be just as significant because of the commitment and expertise of individuals. A particular lesson has been that intensive support to businesses is more likely to be effective than a focus on maximizing the numbers of businesses assisted.

Finally, in assessing targets and achievements within the region, there has been learning as to appropriate indicators and measurements and what might be expected from ERDF supported projects. A greater sense of realism over expected achievements is developing. This however still falls short of current thinking about results based management and an understanding of the changes which programmes are seeking to effect. In developing the next generation of programmes, the region needs to be clear about what its overarching objectives are and how it will measure whether those objectives might be and then have been achieved. At the same time the effects of synergies between projects, and with other national actions at the local scale also needs to be further investigated so that the benefits of integration can be factored in rather than being almost excluded by a concentration on the results of individual projects.

1. INTRODUCTION

The North East of England has been a laboratory for the experimentation of regional policy since the 1930s. As a former leading region of the Industrial Revolution in the 19th Century, it spent most of the 20th Century adjusting to the decline of its traditional industries of coal, steel and heavy engineering (Hudson, 1989). Regional policy in the UK was first introduced in the 1930s to combat the endemic unemployment that regions such as the North East experienced at that time, and the region has been subject to regional policy in every year since regional policy was available in the UK. The Structural Funds programmes since 1989 are part of this evolving story, and coincide with a marked shift in orientation of regional policy.

The North East, like all English regions has a limited historical basis as an administrative area. Defined to the north by the very historical border with Scotland, its western boundary is the Pennine hills and to the south the Yorkshire Moors and Yorkshire Dales, so the region has a clear identity as a group of industrial towns and cities surrounded on all sides by sparsely populated uplands and the North Sea. The NUTS 1 region as defined here became an official UK region in 1994, with different government departments having previously used varied regional boundaries during the 1980s (usually incorporating Cumbria, which is now in the North West region, in a larger Northern Region). The North East is the least populous English region with a population of 2.6 million and second smallest by area at 8592 km^2. In spite of the absence of a tier of regional government, the North East has a strong regional identity, more so than most other English regions, partly arising from its historic position as a border territory with Scotland and common industrial heritage (Tomaney and Ward, 2001).

The development of the region in the 19th Century was focused on the exploitation of the Durham and Northumberland coalfield, through small mines and purpose-built villages, and a parallel development of steel, heavy engineering and chemicals industries in the conurbations on the three principal rivers of the Tyne (Newcastle), Wear (Sunderland) and Tees (Middlesbrough). From the 1920s many of these industries began a long decline, especially shipbuilding in the interwar period, leading to a regional policy focused on attracting new industries in the form of lighter engineering and the new consumer goods. Despite a revival of the heavy industries during wartime, this focus on diversification and new branch factories continued during the 1950s and 1960s, whilst coalmining in particular continued to decline. Unemployment levels remained above the national average, but fell in line with national levels. One area of strong performance in this period was the chemicals and steel process industries of Teesside. Thus by the 1970s the region retained a core of traditional industries (much of which, in the form of coal, steel and shipbuilding, had by then been nationalised) alongside a new sector of branch factories which were headquartered mainly in London or the US (Hudson, 1989). Services and tourism were poorly developed. Much of the built environment reflected the region's old industrial history and a tradition of building quickly and cheaply, although evidence of the former coalfield was being swept away in major reclamation projects. Some regeneration had taken place in the major cities and towns and through the designation of several New Towns, but the region retained an external perception as an old and declining industrial region.

This then was the immediate situation at the onset of the 1980s recession which shaped the context for the introduction of Structural Funds support. The recession accelerated the decline of the traditional industries, but also led to the closure of large swathes of the newer branch plants, often focused on the manufacture of mature products. Around 100,000 jobs were lost from a total of 1 million, many involving the closure of very large establishments with thousands of employees. This included shipyards, some of the newer and larger mines (which had been established near the coast to replace the older small mines inland), large heavy engineering plants, steel works, and a wide range of manufacturing sites, including some in newer technology industries such as telecommunications (Williams and Charles, 1986). In addition to the social consequences of the decline, regeneration was needed to address the large amount of derelict land, often highly polluted, and including sites along the rivers into the cores of the cities. Despite the investment in infrastructure in the 1960s and 1970s, the region still needed considerable infrastructure investment, in roads, airports, ports, sewage systems etc.

So the 1980s saw a renewed focus on attracting new investment to the region, this time targeting the new Asian manufacturing investors, a new focus on small enterprises, and physical developments to change the image of the region. The ERDF programmes during the 1990s fitted with this analysis of the regional needs and priorities, but the limitations of an inward investment-based strategy became clear at the end of the 1990s, and the region developed an alternative strategy focused on innovation, and led by a new regional development agency.

The 20 years since 1989 have therefore seen an evolving regional strategy developing in parallel with the ERDF-funded programmes. The early programmes in the 1990s had a stronger focus on infrastructure, especially at the beginning and with an initial heavy involvement of local authorities. Through the late 1990s and into the 2000s there was growing emphasis on innovation and business support, with greater involvement from universities and later the development of new innovation agencies in the form of centres of excellence. Through the late 1990s and early 2000s there was also the development of a strand of support for local economic development targeted on particular disadvantaged communities, identified at ward level, below local authority scale. A major change during the period was the creation of a new regional development agency (RDA), One NorthEast (ONE), in 1999 which took over the management of the ERDF programmes from the regional Government Office in the mid-2000s. From the ERDF being the only regional level strategy at the start of the period, the emergence of ONE and the requirement of central government that it produce a regional economic strategy (and later an integrated regional strategy), created a regional strategic framework within which subsequent ERDF programmes could be inserted. So by the 2007-2013 programme the ERDF programme supported only limited elements, in the form of business support and innovation, of a more comprehensive regional strategy.

Another development over the period was from fragmented ERDF programmes to a single integrated programme. During the 1989-93 period the region was split into two main programmes, and though a united Objective 2 programme from 1994, there remained a separate Objective 5b programme in the rural hinterland that crossed regional boundaries. Adding to this various Community Initiatives with selected geographical coverage, the programmes covered a patchwork during the 1990s, which has been rationalised during the 2000s. Although not covered in this case study, the region also benefited from ESF, initially tied into the regional programme alongside ERDF support but more recently in the form of a national England programme.

At present, the region is again undergoing major change following the abolition of the RDA and the regional Government Office, the abolition of a regional strategic framework and the emergence of two new local enterprise partnerships (LEPs: one for Tees Valley and one for the rest of the North East region), mirroring to some extent the division of the region in 1989 between north and south, although with different boundaries. For the new post-2014 programme the region is to be divided into two with a proposed transitional area designation for Durham and Tees Valley, although this cuts across the new LEP boundary. The current economic crisis has placed great stress on the region and despite considerable advances since 1989 it has again suffered badly due this time to a dependence on public sector jobs and the austerity budget of the governing coalition. The image and economic reality of the region has changed though, and the ERDF seems to have been a component in that change, although there have been distinct winners and losers in the process. The northern part of the region has performed much more strongly than the southern part with widening disparities in GDP within the region, and one of the issues to be addressed in this report concerns the kinds of investment made by ERDF across the region and the consequent effects of these investments on change in the region.

The following regional case study begins by examining in more detail the needs of the region over the 20-year period (Chapter 2) and the relevance of the ERDF programmes to the region, assessing the degree to which the programmes have met regional needs, and how those needs have changed or have been perceived as changing over the 1989 to 2011 period (Chapter 3). The financial evolution of the programmes is examined in Chapter 4 showing the level of expenditure over time and the shifts in the orientation of programmes as reflected in the allocation and expenditure of funds.

Chapter 5 reviews the achievements of ERDF support, both in terms of achievements reported by the programmes and an assessment of actual achievements based on interviews and documentation from outwith the programme management. Chapter 6 follows with an assessment of effectiveness and utility, or whether the programmes benefitted the region regardless of strategy or perceived needs. Lastly, the conclusions in Chapter 7 consider the lessons learnt which may be useful for the next programming period.

The analysis has been based on an expert review of programme documentation, other studies of change in the region, interviews with key stakeholders and an online survey.

Documentation was collected for each of the programmes, including where available programming documents and needs assessments, annual and final implementation reports, evaluations (ex ante, interim and ex post), plus any other regional documents assessing the performance of projects or activities part-funded by the Structural Funds.

Interviews were held, mainly on a face-to-face basis, with 35 individuals involved with the programmes, selected to provide coverage across the whole period from 1989, and to include programme managers, regional leadership, beneficiaries, regional experts and national/EU officials. Most interviews lasted an hour and focused on a combination of the relevance of programmes to regional needs and the detailed discussion of achievements. An online survey was also undertaken resulting in 37 responses based on a list of 171 email addresses, including interviewees but also a wider set of beneficiaries and stakeholders.

Finally, a workshop was held with a group of key individuals to discuss the initial findings and to explore some of the issues emerging. This workshop included former programme managers and beneficiaries and validated the findings through in-depth discussion of some of the debates and decisions made at particular junctures in the evolution of the programmes.

Details of the data collected in relation to the different programmes are contained in Annex IV. Comprehensive data were available for the 2000-06 and 2007-13 periods including project level expenditure. Reasonably comprehensive data were also available for the main programmes in the 1994-99 period, however for the 1989-93 period the only information available was contained in the original programme documents. In general, data were not available for Community Initiatives, especially those at national level with a regional component, with the exception of the URBAN II programme.

This report uses the following definitions:

Achievements are the overall contribution of programmes (individually and jointly considered) to wider societal objectives, recognising that such objectives are likely to evolve over time. They include outcomes and impacts that might not have been originally planned, but which nevertheless affect wellbeing. Critically, this notion of achievement calls for understanding of why the policy intervention made a difference and thus whether or not the logic of intervention was well conceived. In looking at policy achievements over the long term, cumulative achievements are of central importance.

Reported achievements are understood as the outcomes and impacts reported by programme monitoring systems and reporting tools, and by evaluation studies and other research, which may be different from the achievements effectively realised. They may include progress towards hitting targets set in programming strategies. An aim of the evaluation will be to ascertain whether these results and impacts embraced prospective outcomes that correspond to broader objectives.

Relevance is the 'appropriateness of the explicit objectives of an intervention, with regard to the socio-economic problems the intervention is meant to solve'. This concept concerns whether the programme strategies, goals and priorities were sufficiently attuned to the needs of the regions, and whether the balance of expenditure and effort was well judged to meet these needs. Relevance is therefore a concept to be employed in assessing the policy structure and internal coherence of programmes.

Effectiveness is understood as the extent to which programmes achieved the goals stated. This entails two distinct types of goals: on the one hand, the outcomes specified in the programmes; on the other hand, the wider changes which were intended to occur as a result of the policy intervention, or in other words the contribution (impact) expected from the intervention.

Utility is interpreted as the extent to which programmes led to impacts that are in line with 'society's needs and to the socio-economic problems to be solved' which may differ from the goals explicitly stated in the programmes themselves or which may not have been stated explicitly in the programmes.

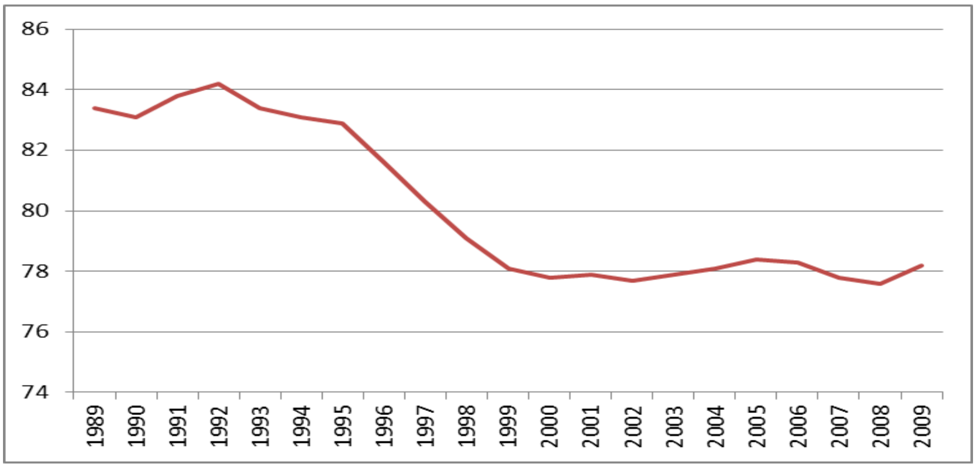
2. REGIONAL CONTEXT AND ANALYSIS OF NEEDS

The North East of England region comprises two NUTS 2 regions, those of Tees Valley & Durham and Northumberland & Tyne-and-Wear. The region is one of the least populous, and least densely populated, in the UK although the population is also highly urbanised, and the region suffers from a degree of peripherality from the more dynamic South East.

As noted in the Introduction, the North East lagged behind the UK average performance for most of the 20th century as a result of the long term decline in traditional industries and a poor market potential for the knowledge- based growth industries. This has led to low rates of growth in output, low productivity, and lower levels of employment. Accompanying this has been the legacy of derelict land, inadequate levels of investment in infrastructure, low skills, endemic worklessness, and a concentration of disadvantage in particular communities which have found it difficult to respond to the loss of their main economic rationale. The analysis of the region’s problems has been consistent over time, although the proposed solutions have evolved during the study period.

Economic Performance: The North East has suffered from a low level of output for many decades and has consistently lagged behind the UK average in gross value added, as well as the EU GDP average. During the first half of the study period the region slipped back further against the UK GVA average with the exception of a couple of small upturns (Figure 1). The period included a long phase of growth at the national level within which the North East grew more slowly with a key turning point around 1999. Prior to 1999 the region slipped back markedly against the UK, as the rest of the country grew much more rapidly, whilst between 1999 and 2009 the region maintained its position relative to the country as a whole.

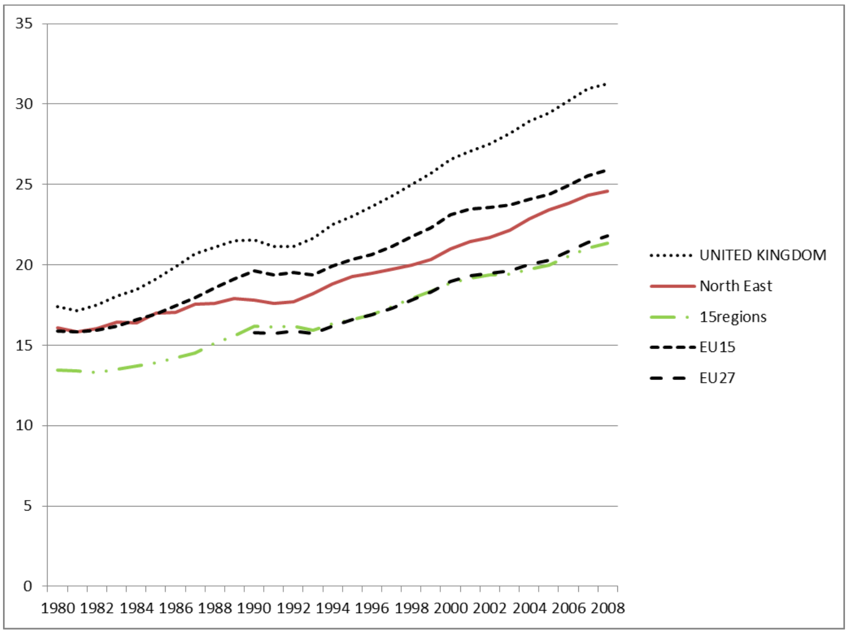
Figure 1: North East GVA per head as a proportion of the UK level



Source: Regional Accounts, Office for National Statistics.

Comparing the North East with the EU 15, the North East’s GDP per head slipped below the EU15 average in the mid 1980s, diverged strongly in the late 1980s, then has grown broadly in line with the EU15 since, but at a lower level, with a degree of convergence in the mid 2000s. GDP levels remained comfortably above the EU27 average level however, although underperforming the rest of the UK (Figure 2).

Figure 2: North East GDP per head compared with UK, EU and the 15 regions

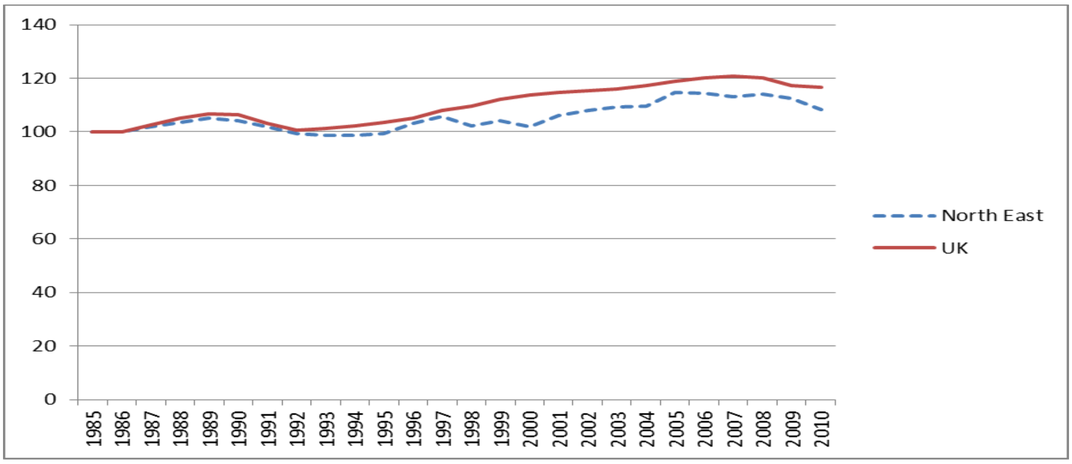


Source: calculated by the core team based on Eurostat data

All of the ERDF programmes set objectives of increasing output (GVA), with the 2007-13 programme seeking by 2015 to increase GVA per capita towards 90% of the UK average, based on an observation at that time that there was a slight narrowing of the gap (although nowhere near compensating for the scale of downwards shift that took place in the 1990s). Since 2008 the UK economy has experienced extremely difficult conditions, and the North East has suffered more than the national average as a result of its exposure to public sector employment which is suffering considerable reduction at present.

Labour market: Employment in the region fell dramatically in the early 1980s as manufacturing shrank in the recession dropping from just over 1 million employed to 938,000 in 1985. There was slow recovery from the late 1980s rising to 984,000 in 1989 with another dip in the early 1990s recession back to 925,800 in 1993. From 2000 the North East saw modest employment growth, (see Figure 3) and peaked at 1,077,600 in 2005 but overall has performed worse than the UK since 1985. The narrowing of the gap with the rest of the UK between 2000 and 2005 gave some confidence to the region, but the situation has deteriorated again since then. Overall activity rates at 74.7% (of 16-64 year olds) remain well below the UK average (77% with the best performing region being at 80%), although this is higher than in many other parts of the EU. Claimant unemployment dropped steadily during the period to 5% in 2007, but has subsequently risen again to 10.8% in early 2012. Joblessness remains a problem in the region, especially in some of the former mining villages with high proportions of middle-aged men recorded as disabled.

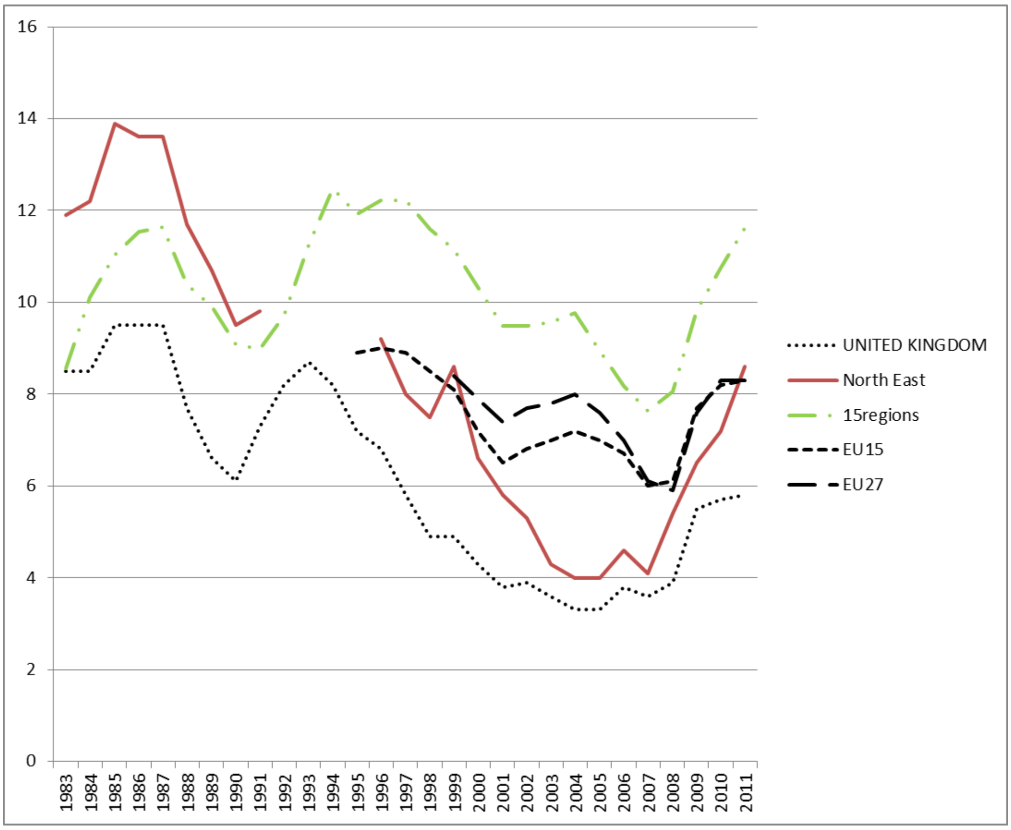
Figure 3: Change in numbers of employees in the North East and UK relative to the 1985 levels



Source: Office for National Statistics, various years.

Compared with the EU more widely (EU15 and EU27) the North East saw considerably lower unemployment levels during the early to mid 2000s, almost approaching the very low UK aggregate level. This performance was a major shift from the 1980s when the region had higher unemployment than the 15 regions examined in this study, and since the mid 1990s the region has been tracking at a significant level below the 15 regions as a group. Since 2008 though unemployment levels have risen markedly, at a faster rate than the rest of the UK and are now above the EU15 and EU27 levels for the first time since 1999 (Figure 4).

Figure 4: Unemployment rate in the North East compared with the UK, EU and 15 regions



Source: calculated by the core team based on Eurostat data

Another perspective on the region's labour market, which has been increasingly recognised since the late 1990s and has wide implications for the regional strategy is the characterisation of the region as having a low-skills equilibrium. Essentially the region has had a low level of skills as measured by a low proportion of the workforce with qualifications, and a low share of the workforce in higher level managerial and technical occupations. With unemployment being concentrated among the lower skilled, the emphasis of economic development strategy up to the 1990s was in attracting manufacturing jobs often at unskilled and semi-skilled levels, which then limits the demands made on the labour market for higher level skills. Thus the "crux of the problem is: low demand for advanced skills among employers dampens individuals' aspirations to gain qualifications, develop new skills and seek advancement in their job" (ONE, 2002). So, although employment grew during the 2000s in particular, skill levels and salaries remained relatively low. This argument has then been used within the region to justify a greater focus on innovation and upskilling to try to move the region out of this low-skill equilibrium where it is essentially in competition with other low wage economies and as such would not be able to close the gap with more successful parts of the UK.

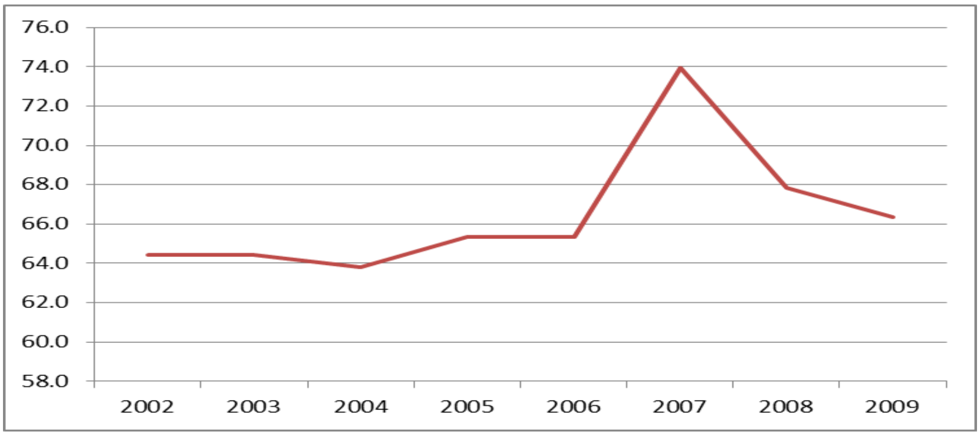
Structural Change: Sectorally, the primary industries and most manufacturing sectors have continued to decline during the period, the main exceptions during the 1990s being motor vehicles and rubber and plastic products. Core industries such as metal fabrication, machinery, chemicals, and clothing all declined. The main growth opportunities were in consumer services, public services and business services, although the latter grew more slowly than the national picture. Knowledge intensive business services grew by 38% in the 1990s whereas the national growth in the same period was 79%. The North East had the slowest rate of growth of any UK region at that time. Productivity levels in 2002 were also lower than the national level for almost all industries, the few exceptions being small sectors such as forestry, recycling or paper products or statistical quirks such as post and telecommunications. Motor manufacturing was the only industry that performed well and was a significant source of exports; this is attributed to a single firm (Nissan) and its supply chain.

Enterprise: The region's history in large scale mining and manufacturing, followed by decades of encouragement of branch plants led to a low proportion of employment in small firms. Keeble (1990) found for example that during the 1980s the rate of net change of business registration in the North East was only 6.7 businesses per 1000 employees, compared with a national rate of 13.1 and 22.3 in the South East.

Firm formation rates have been kept low by low levels of capital availability, low proportions of managerial and highly educated people, limited local markets for business services and a lagging economy. Birth rates of businesses remained low through the 2000s, mainly below 70% of the national average, although with a spike upwards in 2007 (Figure 5). However, recent research suggests that the formation rate of high-growth firms during the early 2000s was similar to the national average, as was the case in several other lagging UK regions. It is the lower birth rate among the mass of firms which has had the greatest impact on employment levels. So in 2008 the rate of jobs created by new firms established in 2001-2005 was 170.7 per 10,000 population compared with 244.1 at the UK scale, and the region experienced a jobs gap of 18,600 relative to the UK average (Botham and Graves, 2011).

UK government data on VAT/PAYE registered businesses identified a total of 41,845 businesses in the North East in 2006 which had risen to 54,770 by 2011, a growth of 30.1% whilst the UK saw growth in the numbers of such businesses of 26% in the same period. Using a broader definition of private sector businesses, recent analysis by the Department for Business Innovation and Skills found that the North East had 119,000 private businesses at the start of 2011 which was 552 per 10,000 adults compared with 897 per 10,000 adults for the UK as a whole. The North East had the lowest density of any region with the second lowest being Scotland at 673 per 10,000 adults (BIS, 2011).

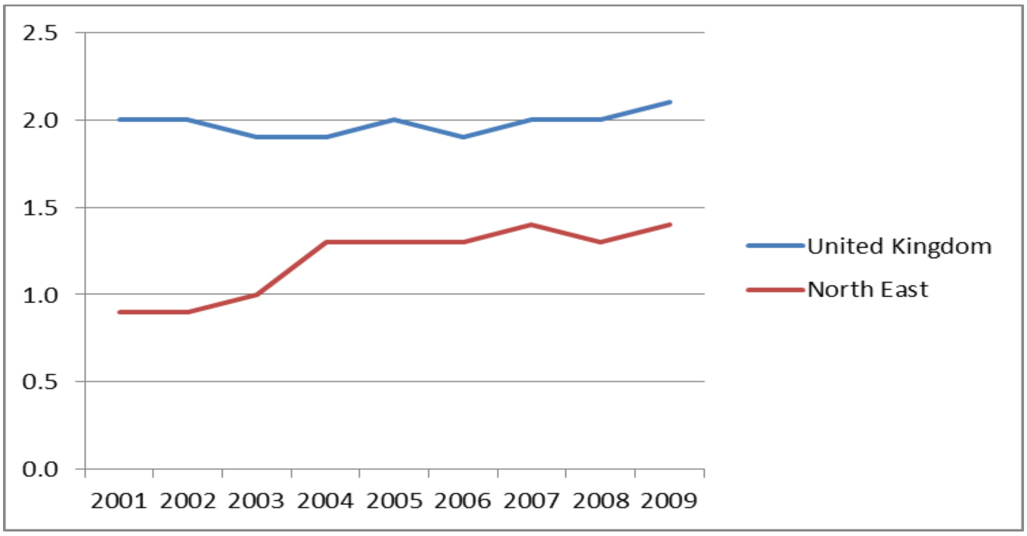
Figure 5: Index of births of new enterprises per 10,000 of the adult population relative to UK average (100)



Source: Business Demography, Office of National Statistics.

Innovation: The region has also lagged badly on measures of innovation, notably in the level of R&D activity, as a result of low levels of business R&D and an absence of in-house government R&D, both of which are mainly located in the South of England. Even in the 1960s there was a recognition of low levels of R&D and technological change in the region (NEPC, 1966), although little was done to rectify the situation through the 1970s and 1980s. Higher Education R&D in the region has been close to the national average. Regional data on R&D were not routinely available and were of poor quality during the 1990s, but since the more systematic collection of this data from 2001 the region has shown some improvement (figure 6) which possibly reflects the emphasis placed on innovation in the ERDF programmes as well as in the Strategy for Success programme developed by One NorthEast. However, the region still lags behind the UK average, which itself lags behind the highest spenders in Europe and the target of 3% of GDP. Indeed it could be argued that as the North East has a higher dependence on manufacturing than the UK as a whole it should look to a higher R&D figure than the UK.

Figure 6: Gross Domestic expenditure on R&D as percentage of total workplace based GVA



Source: Annual Business Inquiry, Office for National Statistics.

Environment: The region has a very mixed performance regarding the environment with an urban core and coastal mining areas that have experienced considerable pollution and dereliction from the history of mining and heavy industry, yet with a rural hinterland that is very sparsely populated and has some of the finest wild countryside in England with some fragile but heavily protected ecosystems. So the region has interpreted its environmental problems as primarily based in the urban and mining sub-regions around the three main estuaries and the coastal strip between them.

A consequence of the industrial restructuring of the region has been a high level of derelict land needing reclamation, often in central urban locations and offering the best locations for future industrial development. In 1988, central government estimated there were around 5,900 hectares of derelict land in the North East of which 4,700 justified reclamation. This amounted to 14.6% of the estimated total for England. By 1993 that total had fallen to 5,100 hectares after 1,600 hectares had been reclaimed, but more had been added. Using a potentially different definition in 2002 the North East had 3,800 hectares of derelict land which fell further to 2,660 hectares in 2007, by which time the North East only accounted for 7.9% of all the derelict land in England.

Overall the decline in heavy industry in the region has led to significant improvements in environmental quality, with improvements in air quality across the region, the cleaning of the major rivers and areas of polluted coastline and an increase in biodiversity with the restoration of habitat and reintroduction of iconic species.

Social cohesion: Arising from the region's history in heavy industry and the long experience of decline and unemployment, the region has experienced considerable social problems with some of the poorest areas in the UK measured in terms of multiple social deprivation. The region has typically been one of the worst performing in the UK on a wide range of indicators including health (high morbidity, low life expectancy), education (low school performance, high levels of truancy, low proportion of people going to university, high literacy and numeracy problems), and poverty (high proportion claiming income support, high levels of children in workless households). These problems are concentrated in particular areas, notably the inner city and riverside wards as well as some of the former mining towns giving some dramatic internal disparities with in the region. It is the concentration of deprivation which is one of the region's biggest challenges, and leads to low levels of social capital and the disintegration of communities, with for example rioting and urban abandonment in some cases during the study period. These challenges have been addressed by UK urban policy measures prior to and during the study period and so have not been central to ERDF programme strategies other than as justification for the need for a focus on employment creation. There has been no demand for ERDF investment in major social infrastructure such as schools and health facilities for example as this has largely been addressed through national investment. The ERDF has therefore played a marginal role in addressing social cohesion through small scale community economic development in support of its significant focus on investment in physical regeneration and employment creation.

Infrastructure: The North East has moderately good infrastructure despite its poor economic performance, with some major projects completed during the 1980s, and further investments made since. Transport networks are satisfactory albeit with some limitations. The region has good road connections to the south, enhanced during the last twenty years by developments just south of the region, although roads to Scotland remain an area of complaint by regional business with substantial sections of single carriageway. Links to the west across the Pennines are also not dual carriageways. Overall though roads have low levels of congestion compared with other UK regions.

The region is crossed by the East Coast railway line between London and Edinburgh with a principal station at Newcastle, a line that was electrified in the late 1990s and was at the time the fastest route in the UK. Although still providing good services, the line has capacity constraints and is now seen as slow compared with high speed lines elsewhere in Europe. Local rail networks are poor with the exception of the Tyne and Wear Metro, largely built in the 1970s, although with two extensions completed during the study period. Port facilities are good, although again expanded during the last twenty years, and the region has two airports, again also expanded. Newcastle airport offers a good range of international connections. The main needs over the period have been more focused on local connections, such as improved access roads for industrial areas, dualling some roads, bypasses, expansion projects and suchlike.

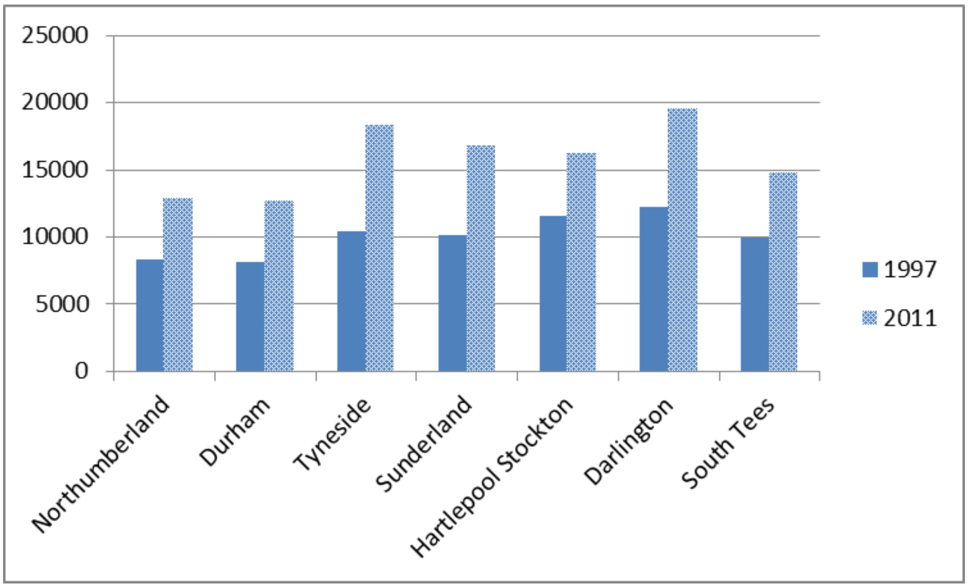
Other infrastructure such as water and sewerage were largely upgraded in the 1970s and 1980s, so the region has significant spare capacity in reservoirs and has been able to comprehensively clean the major rivers. Telecommunications has been steadily upgraded over the last two decades and is relatively good although with patches of poor access in rural areas. The region tends to lag behind other parts of the UK in getting access to new ICT networks.

Territorial cohesion: As already noted there are marked disparities within the region between the inner city areas on the three main estuaries and former mining villages in the East relative to some of the semi-rural towns and villages around them. The severe levels of multiple deprivation in the areas affected by industrial decline contrast with wealthier areas of Tyneside, prosperous market towns to the West or North West of Newcastle, and parts of central Durham. There are then also a set of small villages in upland areas with poor accessibility and a dependence on marginal agriculture and tourism. So whilst the region is divided in half between North and South for policy purposes now, the real geography of internal disparities is much more complex.

During the 1990s the level of GDP per head between the two halves of the region was broadly similar, both dropping relative to the UK, but only 1 or 2 per cent difference between Tyne and

Wear/Northumberland and Durham/Cleveland. Since then as can be seen in figure 7 GVA has grown more strongly in Tyneside with an increase of 75% from 1997 to 2011 compared with around 55% for Durham and Northumberland and only 40% in Hartlepool/Stockton. Thus whilst Cleveland/Tees Valley performed better overall than Tyne and Wear in 1997, it dropped back with the exception of Darlington by 2011. In the post 2014 period Durham/Tees Valley will be designated as a transitional region as a consequence.

Figure 7: Gross value added per head (£) for NUTS3 areas



Source ONS Regional Accounts

Overall the problems identified above have formed the focus of recent ERDF programmes: low GVA; low productivity; low activity rates and high unemployment; poor performance in growth sectors; low firm formation rates; and low levels of innovation. The region also scores badly on wider indicators of social deprivation, and a need for regeneration, but these have been less emphasised in the programmes of the 2000s. These problems still exist though, especially in areas such as South East Northumberland, East Durham and Teesside.

The evaluation of the relevance, effectiveness and utility of ERDF programmes needs to consider this context. Were the programmes designed to address the problems as identified in this analysis of regional indicators? How effective were the policies when assessed against their objectives, particularly in terms of the kinds of indicators used here – if a programme seeks to improve entrepreneurship, how effective is it relative to the regional indicators presented here? Finally can the utility of ERDF programmes be assessed in terms of changes in the identified problems areas and indicators? These issues are addressed in the following chapters.

3. PROGRAMME EVOLUTION AND RELEVANCE

3.1 Explicit and implicit strategies and their evolution

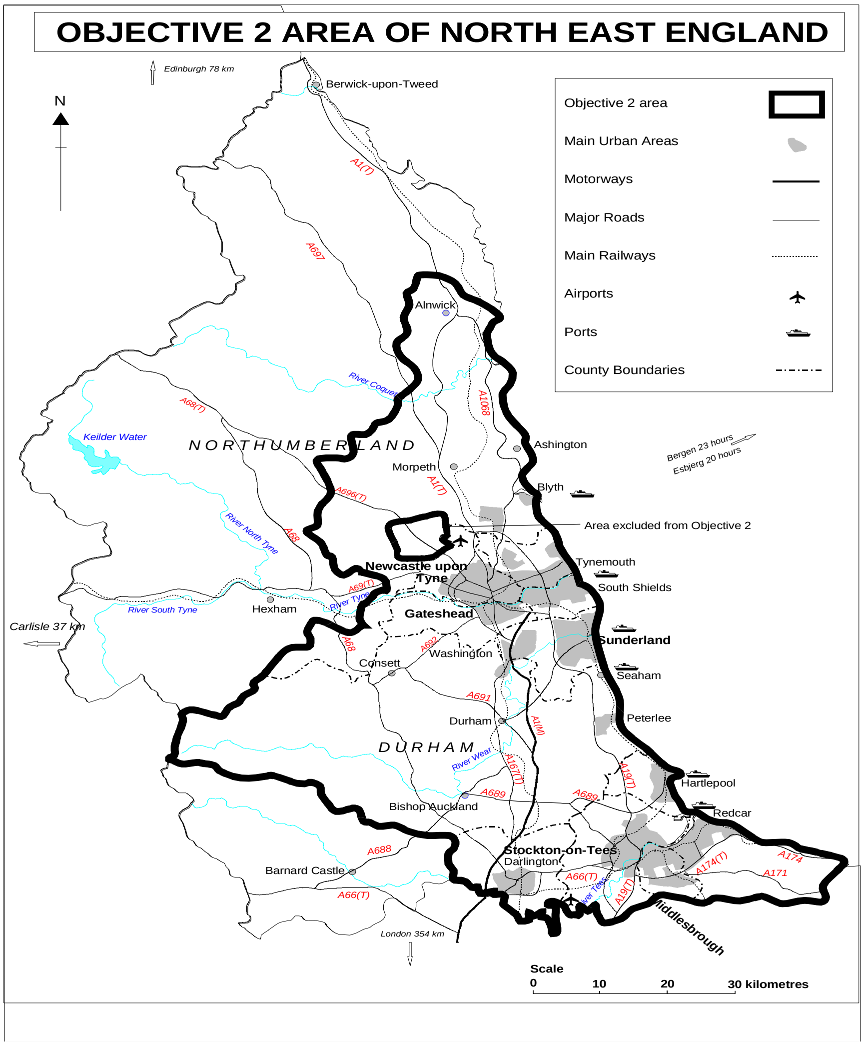
The North East of England has been eligible for ERDF throughout the period from 1989 to date, initially as Objective 2 (with some Objective 5b areas), and more recently as a Regional Competitiveness & Employment (RCE) region. The evolution of the programme strategies over the 20-year period has followed a fairly consistent line, with a growing focus on enterprise and innovation as a means to address the underlying lack of competitiveness of the region, as measured by low GDP/GVA and low level of employment. The earliest programmes had a greater focus on infrastructure and capital investment which has declined over time, and in parallel there has been a strand of support for community development which has waxed and waned, but overall there is a narrative for the region of a growing emphasis on innovation and SMEs, and a growing sense of a conceptual model of how the Structural Funds can contribute to regional development. This narrative was identified by almost all interviewees as a positive development. There has also been a closer fit between the explicit strategy as set out in the programming documentation and the actual or implicit strategy as implemented by the regional partnership. The idea of an implicit strategy is that the written strategy may be different from that pursued by the regional partnership, whose members may be working towards a different set of objectives or targets. So whilst the earliest strategies were aspirational and had objectives focused on regional development generally, they seemed to have relatively little influence on the projects selected, whereas the relationship has been much tighter during the 2000s. This also echoes the evolving narrative at EU level and changing Commission priorities and emphases over the periods in question. The following analysis examines the nature of the programmes for each of the programming periods and explores their explicit and implicit strategies.

3.1.1 The introduction of programming: 1989-93

At the outset of programming in 1989 the North East was largely designated as an Objective 2 region covering all of Tyne and Wear, Durham and Cleveland. Northumberland was only partly covered however with the exclusion of the rural areas of Tynedale district in the west and Berwick district in the north. However rather than one programme, the region was split up into the two NUTS 2 regions for two integrated development operational programmes (IDOPs): Tyne and Wear and South East Northumberland (TAWSEN) to the north and Durham and Cleveland to the south, although a single Community Support Framework was also produced in late 1989 to provide an overview of the regional problem and the resources available through the IDOPs.

The two IDOP programmes both expressed a similar three-part strategy focused on enterprise/underlying competitiveness, sectoral development and spatial development. These were intended to underpin a set of sub-programmes (equivalent to priorities) in a matrix structure. Although the two programmes were developed separately by local partnerships, there was considerable common ground with for example a common sectoral strategy based on work by the regional office of the UK Department for Trade and Industry (DTI), and by a regional inward investment promotion agency - the Northern Development Company. The analysis of needs underpinning the strategies focused on the consequences of long-term decline in traditional industries: in the case of Durham & Cleveland the chapter on needs is entitled ‘The Steel Industry’. Although the strategy then identifies wider problems such as low rates of new firm formation, low levels of skills and the physical legacies of closure and extensive land contamination, the connection between the problems, the strategy and the proposed measures was vague. There was a strong emphasis on infrastructure at this time with considerable investment in road schemes as well as ports and airports, but there was limited focus on business support, mainly involving incubators and training facilities, and there was the emergence of a focus on tourism and image improvement schemes.

Figure 8: Map of Objective 2 area from 1989 to 1999.



The TAWSEN IDOP had the written objective of addressing economic transformation of the region by developing the ability of the sub-region to cope with the current problems whilst seizing future opportunities. This was to be realized through three main strategies and four Action Programmes. The strategies comprised:

1) A Basic Strategy focused on ‘building on the identified strengths’ and ‘minimizing the impact of any weaknesses’, which seemed to be primarily concerned with meeting infrastructure gaps and supporting the general business environment.
2) A Sectoral Strategy, focused on a range of target sectors. These sectors included some with growing opportunities at the time from inward investment such as vehicles, electronics, IT and biotechnology/pharmaceuticals, and others which were more traditional such as

engineering, clothing, food and drink, offshore technology, ports. Business services and tourism represented the growing service industries.

3) A spatial strategy focused on the inner areas of Tyneside and Wearside, but also selected towns in the former coalfield areas.

The programme was organized into four Action Programmes, again with names that were not always clear as to their targets.

1) The Foundations for Regional Growth consisted of three objectives around commercial property related infrastructure, workforce training and buildings/equipment for new technologies.
2) The Conditions for Business Growth consisted of three objectives on business skills, SME formation and development and the application of new technology.
3) Communications for Business had two objectives on internal transport networks and external links to the Single Market.
4) Finally the Future Environment had two objectives focused on tourism and image.

The Durham and Cleveland IDOP had a similar set of objectives and strategic framework to TAWSEN, although with some minor differences. Again there were three overall strategies: the main difference being the first which was an enterprise strategy focused on the endogenous potential for economic development but similar to the basic strategy in TAWSEN; the sectoral strategy was the same as in TAWSEN; and the spatial strategy focused on three groups of area – those undergoing industrial restructuring as a consequence of major closure such as the East Durham Coalfield, the Tees corridor, North West Durham; areas with general growth potential such as central Durham; and areas with potential for tourism development such as the Durham Dales.

The programme had six sub-programmes which constituted the following action lines:

- SP1 Encouraging business development and enterprise. This brought together objectives to support new enterprises, to encourage innovation, to support the increased utilization of educational institutions and to promote the area as a site for industrial investment.
- SP2 Providing industrial land, premises and infrastructure. This was narrowly focused on the provision of industrial accommodation.
- SP3 Remedying communications difficulties – This element incorporated road, rail, ports airport, bus and telecommunications provision although it seemed that the main focus was on road, rail and ports. A primary focus was on improvements to the main internal transport networks within the region and an extension of the port facilities on the Tees.
- SP4 Enhancing the area’s image. This sub-programme was concentrated on alleviating environmental problems through site reclamation and landscaping works around industrial sites.
- SP5 Tourism development. Tourism was felt to offer significant potential to the region and this element was intended to enhance existing tourism attractions such as Durham city, expand on the industrial heritage industry and develop general facilities for use by tourists in terms of sports and leisure facilities, information sites and accommodation.
- SP6 Improving human resource development. The final sub-programme was an ESF programme focused on skills broadly defined.

Before the development of the IDOPs, there was no clear strategy in the region or sub-regions at this time, a view supported by all programme partners. The main driver of the programmes was the need to support projects already identified by local and national government, and there is clear evidence of this in TAWSEN in that the full amount of the programme was already indicatively allocated to a set of mainly capital projects sponsored primarily by local government. These programmes were however the clearest statement at the time of a regional strategy, and drew upon a considerable body of work into the nature of the regional problem and sectoral opportunities. Some of this was quite predictable in terms of the legacy of the loss of traditional industries, the infrastructure heritage of the past and the peripherality of the region. What was newer was a recognition of the limitations of attracting branch factories and their limited stimulation of a business infrastructure, the need to address the region’s negative external image as a constraint on development, and the strengths.

Overall the primary focus of the ERDF expenditure was on infrastructure, with ESF addressing the skills and training components, so the pattern of expenditure failed to reflect some of the sectoral aspirations in the strategy. Most of the funding went into basic infrastructure including new industrial sites, road improvements (some of which were quite considerable new bypasses), port improvements and the like. Even though the objectives of the programmes identified the need to support enterprise, the UK government restricted the application of ERDF to revenue projects at that time to no more than 5% of the available resource. Thus objectives to assist industry had to be recast in practice as support via the provision of new industrial accommodation, transport infrastructure, and general environmental and image improvements for the region. This is not to say that these infrastructure projects were unimportant: again interviewees stressed that the region had considerable needs to clear up the mess left by two centuries of industrialisation. A frequently reiterated comment was that the region is a far better place today as a consequence of this investment, and that the transformation has been dramatic. The changes have been so great that it was difficult to remember the scale of some of the physical problems that the region faced in the 1980s.

The sectoral strategy was underpinned by a series of sectoral reviews and supported by sector working groups bringing together industry and university representatives. Although these sector working groups did not last for long, they provided a starting point for a longer term sectoral and cluster approach that was to run through subsequent programmes, although some of the sectors were to change. Tourism was a notable priority and had its own objective in the action plan, but also a separate Tyne and Wear Tourism Action Plan which the IDOP supported. Other sectors (with the exception of ports) were not so well supported by actual projects except inasmuch as some of the industrial sites were targeted at particular industries such as riverside sites and the offshore sector.

The one sector which figured both in the sectoral strategy of the two IDOPs as well as having its own sub-programme in both programmes, and the only one to do so, was tourism. Tourism was interesting as it was regarded as a source of new business opportunities and potential employment growth just like other sectors, yet it was also attributed with wider impacts on image improvement, building local confidence and attracting inward investment. There was also the potential for local authorities to put forward capital projects which would induce economic activity through the attraction of visitors. This focus on tourism and related cultural investments and latterly creative industries has been a constant and developing theme in successive strategies, and has been perhaps the characteristic most acknowledged outside of the region.

It is important also to stress that in this period there was no other explicit form of regional strategy. It was not until the early to mid-1990s that regional partners started to develop ad hoc written strategies, albeit without any real legitimation, and 1999 before the new regional development agency produced its first Regional Economic Strategy. Interviewees felt that the experience of developing a strategy for the Structural Funds was important in developing the skills and knowledge base for the later regional strategy when the RDA was established.

So the explicit logic of the programmes in this period reflected an assessment of the region's needs focused on physical renewal and structural adjustment, and whilst relatively unsophisticated compared with what followed was a step forward for the region in terms of strategic development. However there was at the same time an implicit strategy being pursued by local authorities in particular, aided by national government, and focused on the need to draw down the funds and spread the funding across the local authorities. This need to make use of ERDF to support local authority spending plans as a consequence emphasised capital expenditure and projects of a kind that could be led by a local authority, so whilst the explicit strategy emphasised sectoral development, the money was being spent on local authority road and property projects.

In addition to the two IDOPs, the region received funding from the RENAVAL and STRIDE community initiatives. STRIDE, although very small, (less than €l million) was interesting in that it was used by the local DTI office to encourage the formation of collaborative projects between universities and other innovation support agencies targeted at the technology needs of SMEs. This was to be heavily expanded in the next programmes. RENAVAL also supported some business assistance on the three rivers of the region where shipyards had closed. In the south of the region RENAVAL support applied to the districts of Langbaurgh-on-Tees and Middlesbrough and involved ERDF grant support of 5.8 million ECU (about £ 4.1 million) matched by 5.5 million ECU (about £ 3.9 million) from central and local government, and 0.5 million ECU (£ 360,000) expenditure by private companies. The programme had two prime objectives: a New Enterprise Strategy, which aimed to provide a range of support services to stimulate the formation, competitiveness and growth of new businesses; and a Physical Strategy to encourage the redevelopment of the programme area, particularly in the immediate vicinity of the Smith's Dock closure site. The RENAVAL programme supported investment costs by small and medium-sized enterprises, consultancy and common services for small firms, support for technical innovation, the cost of sectoral analyses and risk appraisal, and public infrastructures linked to job creation. The target was to provide about 31,000 m^2 of new industrial floorspace, and to aid 170 small businesses. So the Community Initiatives in this period trialed some of the business support and innovation activities that would be developed further under the next regional programmes post 1994.

3.1.2 From infrastructure to sectoral strategies: 1994-99

In 1994 a single Objective 2 programme for the region was introduced with two tranches, 1994-96 and 1997-99, with broadly similar structures, although modifications were made to the structure of priorities and measures for the latter sub-period. The programmes for this period required a much higher level of strategic planning than previously with much greater effort on the development of the Single Programming Document (SPD), on the production of a knowledge base on which the strategy was based, and hence on the linking of priorities and measures to perceived regional problems and opportunities.

The 1994-96 SPD expressed the following long term goal for the region, which was reiterated in the 1997-99 SPD.

> 'To create an increasingly self-reliant and diverse economic base so as to improve the overall prosperity and quality of life of the North East and to assist access to social and environmental benefits and to new economic opportunities throughout the region.'

This objective was set against the context of a widening of disparities between the region and the UK average as a result of slower levels of growth. The operational goals of the programme were therefore to try and stop the decline in the region's GDP relative to UK levels and reverse the trend if possible, whilst also reducing the disparity in unemployment rates. This then translates into programmes in ways that were supposed to play to the region's strengths whilst attempting to rectify some of the weaknesses. Thus there was a shift from the previous programme towards business support measures and away from infrastructure, with an overall shift at a project level from 90% expenditure on infrastructure (1989-93) to 56% (1994-96) and 41% (1997-99). The programme had a strong focus on growth opportunities with priorities being linked to particular sectors or clusters (supply chains, knowledge-based industries, tourism and culture).

A second key feature of these programmes was the introduction of a priority for community economic development which was targeted on the problems of the poorest wards within the region making up 25% of the population. Projects in these measures typically brought together local authorities with other community groups, and a feature that emerged was the development of packages of ERDF and ESF projects targeted on individual communities to provide coordinated responses, and with a role of local residents in their governance.

Alongside the Objective 2 programmes, there were more Community Initiatives, some focused on particular problems within the region such as RECHAR, others where the region obtained funds from a national programme such as KONVER, and SMEs. These provided a mix of additional concentrated funding for areas with particular problems such as RECHAR and the coalfields, and an opportunity for continued experimentation with business support as was the case with KONVER.

In addition to the Objective 2 area, the rural elements of Durham and Northumberland received funding from the Northern Uplands Objective 5b programme (1994-99), although that programme also covered parts of the North West, and Yorkshire regions. The 5b programme was organised around four measures focused on economic development and diversification (including business advice), tourism, community economic development, and environmental enhancement. This arguably complemented the main Objective 2 programmes in that it focused on the problems of low income and rural depopulation in the rural areas of the North East, with an emphasis on supporting the development of SMEs, building tourism infrastructure and networks, and developing greater community capacity: an approach that was not dissimilar to that applied in parts of the Objective 2 region.

Although the two programmes covering 1994-1999 were slightly different in structure there was much commonality with priorities loosely grouped around support for the establishment and growth of SMEs, support for innovation, support for major investments such as overseas firms, sectoral development (including tourism and some sectors already identified in the previous programmes), and a new emphasis on community development which targeted some of the poorer areas of the region. Each of these elements aimed to address particular 'needs' or problems/opportunities.

- The region's employment base was seen as dependent on external investment and larger firms, with low levels of SMEs and start-ups, so considerable effort was placed on new incubators and start up programmes and support to enhance the competitiveness of the locally owned SMEs.
- The region also had poor levels of innovation and R&D but with a strong university sector, so measures were designed to develop industry focused innovation support in the universities and other intermediaries, and target this on the needs of the SME sector.
- Whilst the risk of overdependence on inward investment was seen as a threat, it was also recognised that this was an opportunity to generate jobs quickly and the region had had some success at attracting a new round of Asian investment. So further support was provided for this kind of investment in the form of sites and factories, but also better tying investors into the region through supply chain measures which maximised the benefits and connected such firms to local SMEs.
- Sectoral development related to the latter point in that some investors were seen as the basis for wider supply chain growth, but also growth opportunities in sectors such as tourism were prioritised.
- Finally community economic development was seen as a way of tackling joblessness in some particularly hard hit areas through capacity building, although this could also be seen as partly a social programme.

A theory-based perspective on these programmes has to recognise that the underlying model of regional development adopted here is multifaceted and at times almost contradictory with large externally owned employers being seen as both part of the problem and part of the solution. The underlying theories relating to specific elements however were evolving during the programmes – so for example the cluster and sectoral development aspects evolved over both programmes into a regional cluster strategy, as adopted by the new regional development agency in the early 2000s, through a combination of learning within the programme and external inputs from national and international sources. There was less of a conflict than previously between the explicit strategies set out in the programme documents and implicit strategies being followed by members of the regional partnership. The local authorities gradually lost their grip on spending as new beneficiaries increased their role, and the region made use of the ERDF to help shape future strategic thinking. So, during the mid to late 1990s there were a number of initiatives that developed to help provide the intellectual underpinning for the future regional strategy. A Regional Innovation and Technology Strategy (RITS) was developed (driven by the needs of the programme but without EU funding) at the outset of the 1994-96 programme and was later followed by an EU-funded RITTS exercise to help shape the innovation elements of the programme.

The need for an innovation strategy was identified during the development of the 1994-96 programme. This particular theme had been specifically encouraged by the Commission in response to a perceived problem of low levels of RTD and innovation in the region. Although explicitly a part of the programme development process, there was a further objective of using the RITS as a basis for the broader coordination and management of technology and innovation support services across the region. The RITS brought partners together to develop a strategy at two levels. At an operational level a Technical Working Group was established chaired by the North of England Assembly (NEA) a local authority representative body, and this was overseen by a RITS Steering Group chaired by DTI. The Technical Working Group comprised a team of experts drawn from representatives of DTI, TECs, further and higher education, the Northern Development Company, technology support agencies, the private sector, and local authorities. The RITS Steering Group was a formal committee of representatives appointed by DTI on behalf of the government departments involved in the Structural Funds administration, whereas the Technical Working Group was more open to any interested party to attend, and provided more of a brainstorming opportunity.

When the programme was in operation, innovation advisors from the regional DTI office also advised project promoters on appropriate approaches to innovation support. This was based on the innovation advisers' own experiences of the needs of typical small engineering firms in the region – what become known as the needs of 'Fred in a shed'. At the same time a strategy emerged known as the 'Three Rivers Strategy' based around some larger projects funded under the programme to develop three 'centres of excellence' focused on process industries, high-volume manufacturing and engineering design. At a higher level a project on 'Raising Regional Competitiveness' was funded through the regional challenge element of the 94-96 programme[1] which was intended to provide an intellectual basis for the regional strategy and incorporated benchmarking of regional performance, benchmarking of company performance against international standards, analysis of business support processes and enhanced coordination of agencies in innovation and finance. Some of the thinking behind this was to be taken forward in the development of the regional economic strategy.

3.1.3 The rise of the regional development agency: 2000-2006

The late 1990s could be seen as a time when the sense of a regional strategy was emerging, largely in response to the needs of the Structural Funds programmes. However the explicit strategy in the programmes was being fleshed out and further developed by a series of projects and forums, with greater impetus after the change of government in 1997 and the decision to establish regional development agencies. The creation of the RDA One NorthEast in 1999 was swiftly followed by the Regional Economic Strategy, with continuity guaranteed by the absorption of the Northern Development Company into the RDA.

The first Regional Economic Strategy had six priorities which mapped closely onto the previous Structural Funds programmes:

- Creating wealth by building a diversified knowledge driven economy
- Establishing a new entrepreneurial culture
- Building an adaptable and highly skilled workforce
- Placing universities and colleges at the heart of the region's economy
- Meeting 21st century transport, communications and property needs
- Accelerating the renaissance of the North East.

[1] Regional Challenge was a top slice of the objective 2 programme for strategic projects awarded after a competitive process involving national government.

For each of these priorities the RES set out proposed actions but also examples of successful projects, most of which had been co-funded by the Structural Funds.

The RES was developed just after the 2000-06 SPD, and while the SPD priorities are reflected in the RES, many commentators consider there to have been a missed opportunity, had the timing of the two-strategy development processes been better aligned. However, respondents did make the point that at this stage the RES was seen as the RDA's strategy whilst the SPD was the strategy of a wider partnership, so there was a difference in emphasis, and the SPD was more open to different project approaches, compared with the 2007 programme. At this point also, the RDA was still largely driven by the need to deliver central government programmes and had yet to develop an integrated and independent approach to supporting regional development.

The overwhelming emphasis of the 2000-06 programme was job creation. The analysis of the region's performance showed it was lagging the rest of the country on all indicators except those relating to manufacturing industry. With the region's prospects being described as bleak, the over-riding message was that the region was 'desperately short of jobs'. So the strategic objectives of the programme were to:

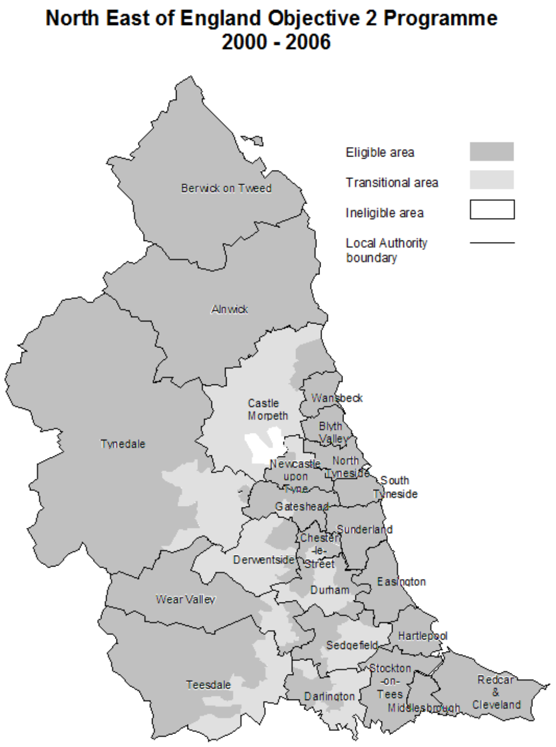
- **create a substantial volume of new jobs** in order to reduce the gap between the North East's unemployment rate and the average for England;
- improve the number and performance of SMEs in the North East by raising their competitiveness and turnover, thereby bringing the region's performance closer to the national average;
- tackle social and economic inclusion by providing support to develop the employability of residents of target communities, thereby reducing employment disparities within the region.

Thus the first two priorities of the programme focused on creating SMEs and helping them grow and creating jobs, the third priority was focused on strategic opportunities for employment creation which continued the provision of sites for major investors and growth sector development, whilst the fourth priority was focused on community economic development in target areas. So there was considerable continuity in strategy but with a growing focus on entrepreneurship and SMEs. Note that innovation was built into priority 2 and tourism and culture were built into priority 3 as part of a measure on urban and rural renaissance (see Annex II for details of measures).

The programme was therefore targeted to achieve by 2008 a substantial volume of new jobs (33,308 net new jobs), improved performance of SMEs (€1,228 million net additional turnover) and improvement in social and economic inclusion focusing on employment (8,000 unemployed residents of target communities taking up employment).

For the 2000-2006 programme, the assisted area map also changed and the programme became a single regional programme incorporating the rural areas formerly assisted through the separate Objective 5b programme. Almost all of the region was eligible apart from a very small area to the north west of Newcastle, although some areas were designated as transitional, lying between the old industrial areas of the coast and rivers and the rural uplands (figure 9). These areas largely consist of relatively prosperous small towns and villages, including the City of Durham.

Figure 9: Map of Objective 2 area, 2000-2006



The programme was initially allocated a Community contribution of €717 million consisting of €581 million ERDF and €135.6 million ESF, with an additional €29.6 million of ERDF added from the Performance Reserve in 2004. Most of the ERDF was dedicated to the core areas with only €40.4 million allocated to the transitional areas.

The logic of the intervention for this period largely follows that of the previous period, except for a reduced emphasis on inward investment and a greater focus on SMEs and innovation. A key development towards the end of the 1997-99 period was the announcement of the closure of a Siemens semiconductor plant in the region followed swiftly by the closure of the region's only other semiconductor plant operated by Fujitsu. The Siemens investment, originally announced in 1995 was for a £1 billion plus investment in a leading-edge semiconductor plant employing 1500 and including R&D activity, and symbolised the modernisation of the region and the success of the inward investment strategy. Closure was announced in 1998 as a result of Siemens' over-extending itself in building semiconductor capacity and because the North East plant was the easiest of Siemens' plants to close despite being the newest (Charles and Benneworth, 1999). This shocked the region and came at a time when a number of inward investors, particularly in electronics started to move out of the UK, often favouring production in lower cost locations in Eastern Europe as well as Asia. With levels of enquiries from investors dropping, the region began to realise that greater emphasis would need to be placed on SMEs and endogenous development and this was reflected in the programme.

3.1.4 The RDA-led programme: 2007-2013

The current North East programme is a Regional Competitiveness and Employment (RCE) programme, again covering the whole region and with an anticipated £250 million ERDF expenditure, as the level of funding was reduced as a consequence of rebalancing across the EU. At the outset, the regional partnership was more optimistic than previously, reporting some positive movement on key indicators, and the ERDF programme was closely tied to the Regional Economic Strategy (RES) developed by One North East. In advance of the 2007-13 programme, the region had renewed its strategy with a new Regional Economic Strategy for 2006-2013, with the prime objective of raising GVA from 80% to 90% of the national average by 2016, increasing the number of jobs by between 61,000 and 73,000 (compared with a regional total employment of around 1 million) and creating between 18,500 and 22,000 new businesses. Proposed investment was to be focused on three themes:

- Business, incorporating enterprise, business solutions and structural change;
- People, incorporating skills and economic inclusion;
- Place, incorporating transformational regeneration, business accommodation, connectivity, heritage and culture.

This strategy set a framework for investment, and it was anticipated that the Structural Funds would contribute to the overall strategy alongside a number of UK sources of funding. The ERDF was therefore expected to make a contribution to this strategy rather than being a separate approach and the regional partnership agreed to the ERDF programme being concentrated on the business theme and focusing on innovation and SMEs through a two-priority programme. The strategy for the use of ERDF therefore became very much more focused and tied to the strategy of the RDA. The narrowing of the strategy was partly driven by the combination of reduced ERDF funding and the drive for fewer larger projects, partly by perceived changes within the region and the expectation that UK public and private funding would be available for certain other types of project, and importantly, by the strong steer provided by the Commission in particular via the earmarking exercise, that programmes in RCE regions should concentrate on innovation and entrepreneurship interventions.

Thus, much of the infrastructure and community development aspects of former strategies were left out as it was expected that the demand for public subsidy for infrastructure would fall as the private sector role increased, that much of the major infrastructure needs were already addressed, and that there were adequate resources already in the region for these objectives. The Programme Managers therefore felt that given the reduced resources of the ERDF, they would only have a transformative effect if concentrated on a small number of priorities and the focus on SMEs and innovation were most relevant to the achievement of the region's targets for GVA and employment growth. Innovation was also the focus of a distinct regional strategy in the form of the Strategy for Success which sat within the RES and focused on knowledge based development. Although developed during the previous programme it had influenced some of the projects at that time, but for the 2007-2013 programme Strategy for Success was to drive the thinking behind the larger innovation projects to be funded.

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

In designing the programme, the region took account of the limited resources, the desire of the Commission to concentrate resources and have fewer bigger projects and the concern over impact. There was strong convergence between the region and DG Regio in the identification of innovation, enterprise and business development as key priorities. Other areas of significant funding in the past such as transport were no longer seen as such high priorities within the region as a result of previous investment. Sustainable urban development was seen as a priority for the region but the level of resource that would be available from the ERDF, given other priorities, was seen to be relatively small compared with the resources budgeted in the RDA's RES Action Plan. It would therefore be difficult to ensure that ERDF expenditure was highly visible and adding value, so this was omitted from the programme.

Thus the programme was left with two main priorities:

- Enhancing and exploiting innovation; and
- Business growth and enterprise.

In addition three cross-cutting themes were identified: equality of opportunity; environmental sustainability; and addressing spatial disparities in economic inclusion.

The programme has clear objectives in terms of increasing GVA, increasing the number of new businesses, increasing R&D expenditure, improving environmental performance of businesses and increasing productivity. Thus the logic of this programme is much simpler than previous programmes and is transparent: the programme seeks to build a regional innovation system and a more entrepreneurial economic base. The regional innovation system is to be built around a limited set of sectors focused on renewable energy, process industries, health and creative/digital media, based on the region's universities and some key sites and infrastructures. In parallel, entrepreneurship is to be enhanced through the provision of finance, advice and the general shift to a more entrepreneurial culture. These developments are intended to increase the number of firms, help them to be more innovative and hence generate greater value added and employment. It is very much a strategy that was developed for a period of growth, and as such has been challenged by the developments in the UK and regional economy since 2008. It is the culmination of a trend that can be observed over the whole period of shifting from correcting the legacy of deindustrialisation to building a new set of entrepreneurial clusters in the region.

3.2 Relevance of programmes to regional needs

Over the period from 1989 to the present, successive programmes have changed in their orientation and hence the manner in which they have sought to address regional problems. Whilst many of the problems have remained constant over time in terms of the lagging level of output and entrepreneurship, some other aspects of the region have changed over time, partly due to the impact of the structural funds and other regional funding. The analysis of the solution to the region's problems has also developed over time with consequent effects on the mix of policy interventions. Table 1 below summarises the regional needs identified by the different programmes and the programme responses. This illustrates the shift from infrastructure and inward investment in the earlier part of the period to enterprise and innovation. A further summary assessment is provided in Table 2, which shows the degree to which programme responses in practice (imputed objectives) matched regional needs.

Table 1: Comparison of regional needs and programme responses

	Regional need	Response	Project focus
1989-93	Structural adjustment, infrastructure especially property and derelict land	Aligned to domestic strategy of attracting inward investment	Physical development Local connections
1994-99	High unemployment, low skills, continued need for infrastructure, poor connections, building upon inward investment	Increased emphasis on innovation and enterprise introduction of 'softer issues' around community economic development	Redevelopment of large strategic sites, transformational tourism projects, Much greater involvement of universities emerging cluster approaches
2000-06	Job creation, increase numbers of SMEs, social inclusion	Alignment with new Regional Economic Strategy, alignment with Business Links programme stronger focus on SMEs New financial instruments	Softer infrastructure Business support Centres of excellence Finance equity instruments
2007-13	Lisbon/competitiveness steer from Community Strategic Guidelines	Embedded in larger RES/RES Action Plan and Single Programme match funding	Business support Innovation connectors Finance equity instruments

Overall regional stakeholders when asked about the extent to which the objectives of different programmes had addressed regional needs showed a reasonably consistent view over time, no respondents saying they had not at all addressed needs (Figure 10). There was a greater proportion of respondents indicating that the objectives of the most recent programme very significantly addressed needs, but there was also a strong positive response to the 1994-99 programmes.

At the outset, the analysis of the region's problems was appropriate if less well-developed than later: the region identified its problems clearly within the strategy. However, these were inadequately translated into the action plans for 1989-93 due to restrictions placed on the use of ERDF. Additionally, an implicit strategy was to ensure that funds were distributed to local government and some utilities to support their capital investment programmes, and this was very clearly the focus of the proposed actions. So the design of the programme partly addressed the region's problems, at least as interpreted as a need to attract new manufacturing investment and that barriers in terms of poor infrastructure needed to be overcome. The programme did not, however, effectively address the wider regional problems such as entrepreneurship although recognised to some degree in the needs analysis of the programme documents (see Figure 10).

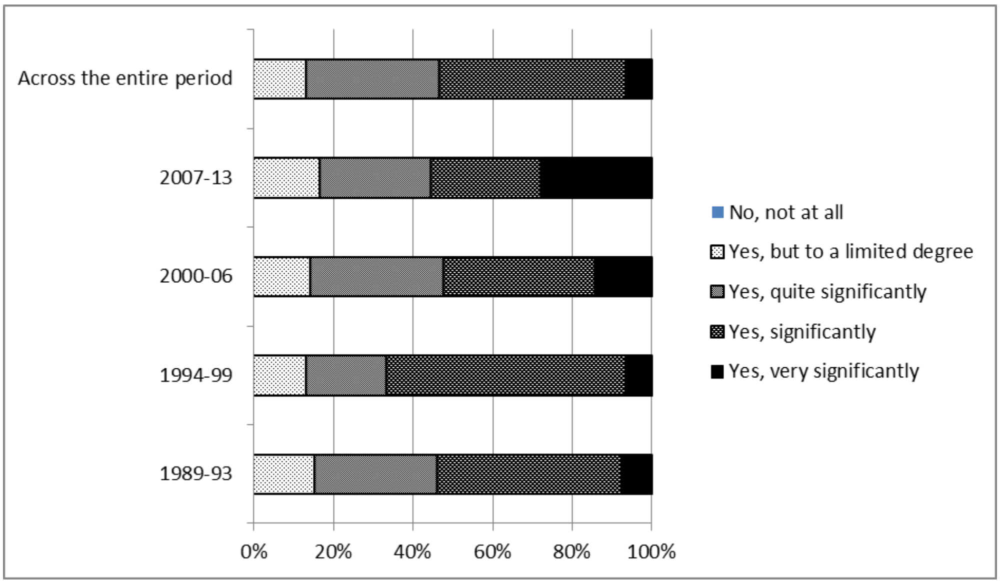
Table 2: Needs and imputed objectives for eight thematic axes

	1989-93		1994-99		2000-06		2007-13	
Thematic axis	**Needs**	**Imputed objectives**	**Needs**	**Imputed objectives**	**Needs**	**Imputed objectives**	**Needs**	**Imputed objectives**
Enterprise	++	2	++	3	++	4	++	5
Structural adjustment	+	2	+	5	+	4	+	3
Innovation	++	2	++	3	++	3	++	5
Environmental sustainability	=	2	=	2	=	2	=	2
Labour market	++	3	++	3	++	3	++	1
Social cohesions	++	1	++	3	++	3	++	1
Spatial cohesion	=	1	=	1	=	1	+	1
Infrastructure	++	5	++	5	+	4	=	2

Needs Scale (evaluation of the region at the start of the period)
++ Very high need: the region is highly deprived on this axis
+ High need: the region is somewhat deprived on this axis
= Average need: the region is around the national mean on this axis
- Low need: the region is above the national mean on this axis
-- Very low need: the region is already a European front-runner on this axis

Imputed Objectives
5 Very high effort, this axis is a central aspect of the regional development strategy
4 High effort, this axis is an important element in the regional development strategies
3 Average effort, this axis is included in the regional development strategy but not particularly important
2 Low effort: this axis is only marginally considered in the regional development strategy
1 No effort at all on this axis

Figure 10: The extent to which the objectives of the ERDF programmes addressed regional needs?



Source: online survey of regional stakeholders

The programmes of the mid/late 1990s were much more strategically focused on a wider set of regional needs and were based on a more thorough analysis of the region's problems. Priorities and measures were developed to cover most aspects of economic development including innovation and enterprise, and with a greater emphasis on supply chain and sectoral development alongside the infrastructural aspects of support for inward investment. The problems of disadvantaged communities were targeted through a community economic development priority as well as through some targeting of the major job creation efforts around strategic sites. These two programmes represented a compromise between developing long-term solutions to the region's problems through enterprise and strategic investments whilst still trying to create jobs through short-term investment projects and dealing with immediate problems of derelict land and community disadvantage. As such the programmes could be described as trying to do too many things simultaneously, and as a result also spread resources very widely and thinly with lots of small projects.

The 2000-06 programme is seen by many within the region as possibly the best-designed programme and incorporated considerable learning on needs analysis and strategy development, and was developed in parallel with the new regional development agency's regional economic strategy. The programme continued much that worked from the 1990s, but incorporated a recognition that inward investment was not the primary source of future jobs and gave much greater prominence to enterprise, reflecting real regional weaknesses. Alignment with emerging regional strategies was a key feature which ensured a close fit with needs, and the programme targeted interventions that had been identified within the region as problems such as the supply of venture finance.

The strategic focus continued with the current 2007-13 programme which focused down on only two themes, both recognised as priorities for the region - enterprise and innovation - but in doing so no longer funds other regional priorities. Whilst this decision to be highly focused was subject to some criticism from the Tees Valley part of the region where there was felt to be a continuing need for regeneration, programme managers argued at the time and subsequently that the region's needs in stimulating entrepreneurship, developing a vibrant SME sector and investing in innovation in potential growth sectors were likely to be the key drivers of the economy. Given the reduced resources available it was argued that such a focus would be the only way to guarantee significant impact through a critical level of investment.

Overall, then, the programmes have evolved from a concentration on infrastructure and a strategy focused on inward investment, through a period where the programmes addressed a wide set of problems and experimented with different strategies in parallel, to a concentration on business support and venture capital focused on entrepreneurs and SMEs. This process can be seen in more detail in the evolution of the kinds of projects being funded as is explored further in Section 5.1.2(i) The region's problems have remained broadly defined over the period, with an arguable reduction in needs around regeneration in at least parts of the region. The programmes, though, have addressed different elements of those needs at different times based on a strategic analysis of the most appropriate focus for investment which has developed over time from an initial political emphasis on sharing out resources among local authorities. As Table 3 indicates, ERDF programmes have become more relevant to regional needs over time, notably with respect to enterprise and innovation, arguably less so in some other areas. The central question though is whether these decisions to refocus the programmes over time have been more effective in delivering achievements and have been more likely to deliver real change in regional development. This is the focus of Chapters 5 and 6.

4. EXPENDITURE ANALYSIS

4.1 Financial allocations

The level of ERDF allocated to the North East has waxed and waned over this 20-year period, with the late 1990s being a time of massive growth in spending, followed by a gradual reduction for the 2000-06 and 2007-13 periods. Alongside the allocation of ERDF, the 1990s saw considerable infrastructure projects with very large amounts of national funding alongside the ERDF, whereas during the 2000s the ERDF expenditure has been matched from within a regional budget where the ERDF element has been just one element and hence a less important driver of total regional regeneration spend. So whilst the analysis of the ERDF over this period tells a story of the role that the European programmes played in the region, it is a partial story to some degree as there is a parallel account of the changes in the organisation of national funding for regeneration.

Table 3 below shows the allocations of funding in euros/ecus at the time of allocation across the four programming periods covered by the study. This shows the increase in allocated funding from 1989-93 to the late 1990s, continued high levels of funding in the 2000-06 period and then a reduced allocation from 2007. Also the programmes prior to 2007 had ESF integrated into them, whereas from 2007 the regional programme was ERDF only and ESF was implemented through a separate national programme.

Comparing the allocated ERDF and the actual spend for these programmes is difficult as the percentage achieved depends crucially on fluctuations in currency values, and data have only been available in pounds sterling for most of the period. Although comparisons across programmes are difficult, it is estimated that some of €3.2 bn of ERDF was allocated to the region over this period, the high point being the late 1990s and early 2000s. Actual expenditure was not available for 1989-93 but data of varying quality were available for the main programmes subsequently and suggests the region has achieved expenditure levels of between 85% and 90%. However as expenditure has been in sterling and is only converted to euros as payments are made from the Commission there have been shifts of several percentage points as a result of currency fluctuation as rates hit 1.7 in 2000 but at other times have been close to parity.

Table 3: North East ERDF programme allocations 1989-2013 (meuro or mecu unadjusted values)

Programme	Period	€ ERDF	€ ESF	€ Total
1989-1993				
Durham/Cleveland IDOP I	1989-91	49.7	19.3	69
Durham/Cleveland IDOP II	1992-93	c60	c25	c85
TAWSEN IDOP	1989-93	151.5	43.4	193.9
Tyne & Wear RENAVAL	1990-93	c34	0	c34
Middlesbrough & Langbaurgh RENAVAL	1990-93	6	0	6
TAWSEN RECHAR	1992-93	c16	c3	c19
Durham RECHAR	1992-93	c16	c3	c19
1994-99				
NE England Objective 2 94-96	1994-96	231	77	310
NE England Objective 2 97-99	1997-99	282	96	378
Northern Uplands Objective 5B (overlaps with 2 other regions)	1994-99	67	16.2	110.59[2]
NE England RECHAR II	1994-99	20	4	24
UK RESIDER II (NE share)	1994-99	6	1	15
2000-2006				
NE England Objective 2000-06	2000-06	611	136	747
URBAN II	2000-06	12	0	12
2007-2013				
NE England ERDF Competitiveness Programme	2007-13	361	0	361

Notes:
TAWSEN = Tyne and Wear / South East Northumberland
IDOP = Integrated Development Operations Programmes
RENAVAL = CI to combat decline of shipbuilding areas
RECHAR = CI to combat decline of coalmining areas
In addition to the programmes shown in the table, the North East received support from several Community Initiatives that were managed at national (England) level including STRIDE (science and technology for regional development), KONVER (decline of defence industries), RETEX (textile industries), PESCA (fishing industry), RESIDER (steel industry) and SME (support for diversification of SMEs). It is estimated, conservatively, that this brought a further €20m of ERDF to the region.

[2] Includes 27.39mecu of EAGGF

Table 4: North East ERDF programme allocations and expenditure 1994-2006 (meuro or mecu unadjusted values[3])

Programme[4]	Period	€ ERDF allocated	€ ERDF spent	Spend as % of allocation
1994-99				
NE England Objective 2 94-96	1994-96	231	168	72%
NE England Objective 2 97-99	1997-99	282	250	89%
NE England RECHAR II	1994-99	20		
2000-2006				
NE England Objective 2000-06	2000-06	611	525	86%
URBAN II	2000-06	12	10	83%

4.2 Expenditure compared with allocations

Examining the expenditure against the eight thematic axes used in this study, we can see the shift over time from infrastructure to enterprise and innovation. Analysis was undertaken by allocating each measure to one of the thematic axes, and presenting these for each of the main regional programmes. Data were included for ERDF-funded measures only as the inclusion of ESF would be misleading given its exclusion from the most recent programme and the existence of varying proportions of ESF funding outside the regional programmes. For 1989-93 only, allocation data were available, and for 2007-13 only the expenditure to 2010 was available.

Figure 11 below shows the changing proportions within each programme expressed in percentage terms. The major shift after 1993 is clear, with most of the 1989-93 programme being allocated to infrastructure mainly in the form of land reclamation, site development, transport improvements and other network infrastructure. Structural adjustment is the next biggest axis and is mainly focused on tourism. Some enterprise activity was supported at this time but was built into the ESF programme and not ERDF supported.

For the 1994-96 programme there was a dramatic change in that almost all of the eight thematic axes were supported with a fairly even distribution across them. Environmental sustainability was allocated a relatively small amount of funding, which has been consistent across the whole period, although some of the infrastructure expenditure has supported environmental improvements on contaminated sites. There was a broadly similar pattern to expenditure as to allocation, but with a relatively higher spend on enterprise and structural adjustment and lower spend on innovation and infrastructure. There was a significant ERDF expenditure on the labour market theme, mainly in the form of capital and premises for training.

The 1997-99 programme was dominated by structural change, mainly focused on large infrastructure projects for inward investment as well as supply chain initiatives. This even absorbed more money in expenditure than in the initial allocations, and reflected the emphasis on strategic

[3] Values have not been deflated for this comparison as allocations are made at the beginning of the programme and expenditure is made over a period of subsequent years using different exchange rates, yet must remain within the initial budget. If the expenditure was deflated then any underspend would be artificially increased.

[4] Programmes only displayed for which expenditure data are available.

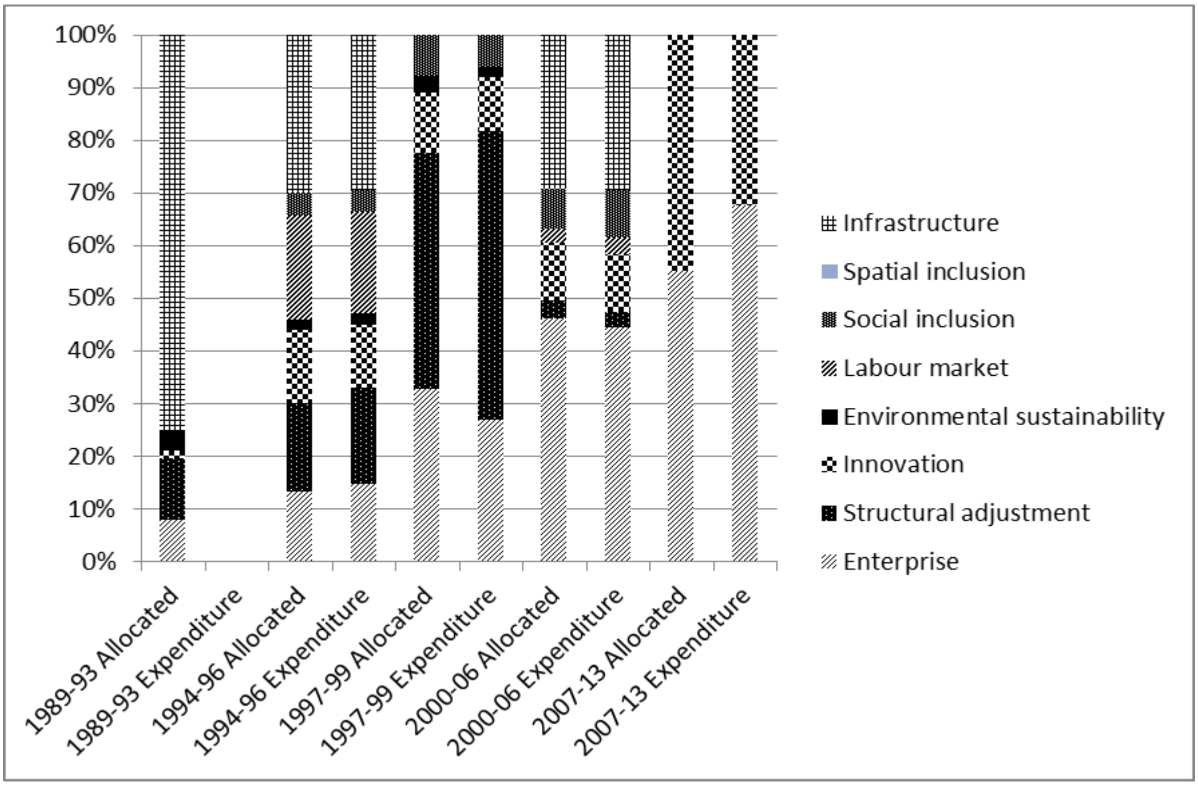
inward investments of that period and a hope that these would kick-start a process of regional change. Enterprise and social cohesion both increased their share of the funds although both struggled to absorb the allocated amounts of funding and expenditure was down relative to the allocated amounts. Innovation maintained its share of the budget but again failed to reach its allocated level of expenditure.

Enterprise continued to increase in significance through into 2000-06 with an allocation of around 45%, although again failing to reach its target share of expenditure. Infrastructure re-appears as a major category as land and premises become detached from the sectoral programmes that dominated 1997-99. With the failure of prominent inward investors and a lack of major manufacturing investments forthcoming, the structural adjustment theme was given a much lower profile, even though the change in actual projects funded was not as dramatic as the measure objectives suggest. Again a small labour market measure was supported and social cohesion was continued through community economic development support.

2007-13 completes the transformation, with a programme consisting of only enterprise and innovation. All other activities, inasmuch as they are supported, are being funded out of national and regional sources of funding. The pattern of actual expenditure is provisional and partial but illustrates a more rapid uptake of expenditure on enterprise largely due to the early launch of the Jeremie fund[5] which accounts for about a quarter of the total programme in one project. It is also worth noting that environmental sustainability is a component of the innovation measures in that one of the major research centres and programmes being supported is focused on renewable energy. The innovation measures also largely encompass the structural adjustment theme as well in that there is a strong sectoral focus for much of that expenditure. Finally, looking at the annual pattern of expenditure, Figure 12 shows the total level of expenditure from the main regional programmes expressed in euros in 2000 prices. This shows the cyclical pattern of expenditure for each programme, with a peak level of expenditure usually two to three years into a programme and with significant overlaps between programmes. It also shows the broad trend downwards from the late 1990s.

[5] A JEREMIE holding fund is a mechanism by which ERDF managing authorities can use part of their Structural Funds to provide equity, loans or guarantees to SMEs through a revolving holding fund. The holding fund can provide a source of capital for other existing funds and financial intermediaries within the region.

Figure 11: Allocations and expenditure by thematic axis across regional programmes (expressed as percentages)



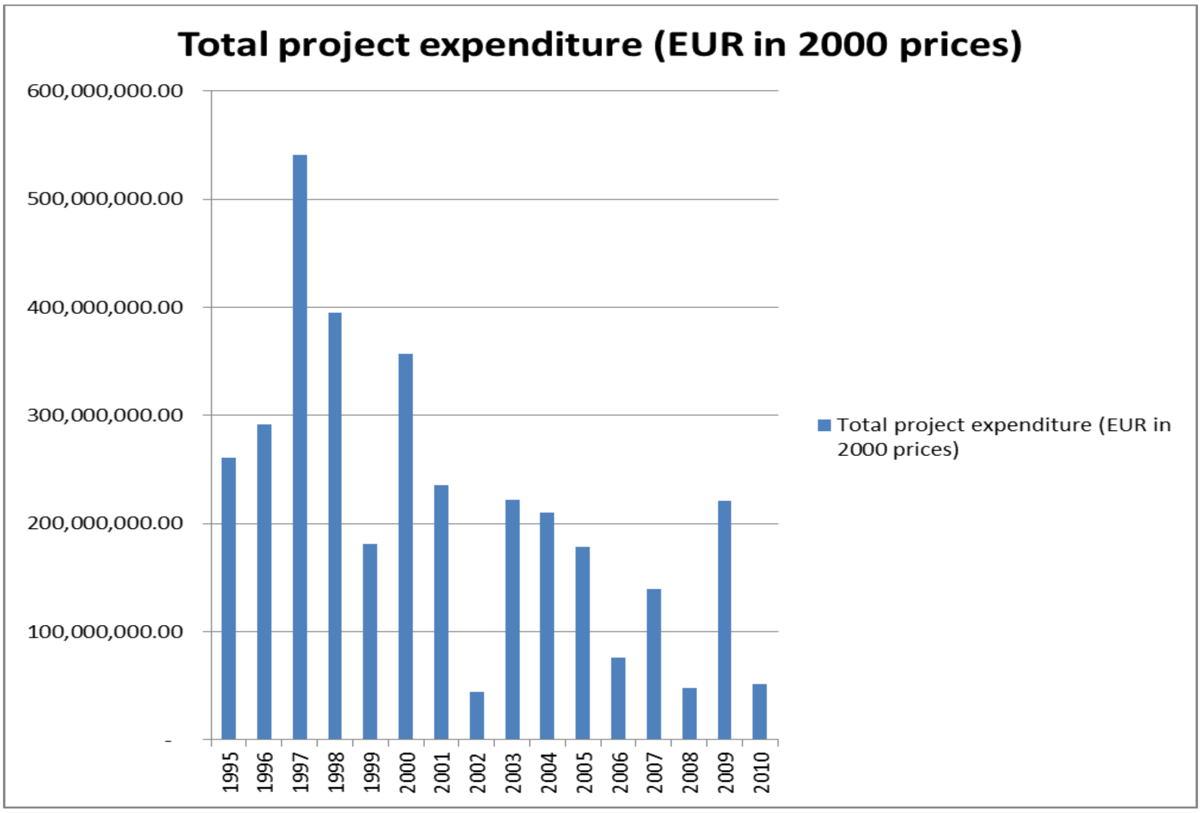
Source: authors' analysis of programme documentation. NB expenditure data not available for 1989-93.

The peak year of expenditure was in 1997, based almost exclusively on the 1994-96 programme, and with very high levels of matched funding in major infrastructure projects. Expenditure levels then fall to 1999 when 1994-96 programme expenditures have ceased and the 1997-99 programme has yet to hit its peak of expenditure. 2000 and 2001 then have the peak of 1997-99 programme spend before the 2000-06 programme starts to show expenditure. The 2000-06 programme then shows its peak of spend in 2003-2005 although with some spend running on to 2009. The new 2007-13 programme starts to spend in 2009, with a large initial spend due to the Jeremie fund, after which the annual spend level drops again for 2010.

In part, the huge swings in expenditure from year to year reflects that much of the expenditure in earlier years was focused on infrastructure projects and hence was lumpy. A much smaller proportion was spent on ongoing revenue projects where costs and hence expenditure were constant from year to year. In recent years the variation is exaggerated by a few large projects: the Jeremie project being a case in point. The spike in expenditure in 2009 was largely due to this large project, but reflects the money being deposited in funds which will be invested in businesses over subsequent years, so the real expenditure and impact on business investment is likely to be spread over 2009-13 rather than contained within the single year, and the spike in expenditure is misleading.

Viewed in terms of a proportion of regional GDP, the expenditure on the regional programmes peaked at levels of just under 1% of GDP (with the ERDF contribution being only around a third of that), falling in the late 2000s to a typical annual level of 0.2% of regional GDP. Precise figures are not useful due to the lumpiness of investment from year to year, but the small scale of expenditure relative to regional GDP places constraints on what we might expect the programmes to contribute to changes in regional level performance.

Figure 12: Total expenditure on ERDF projects within regional programmes 1995-2010 (expenditure calculated in euros and deflated to 2000 prices)



Source: authors' analysis of expenditure data.

Overall then the analysis of expenditure confirms the trends identified in the programme analysis: there has been a consistent shift in the direction of the programmes in North East England away from an initial focus on infrastructure construction towards an emphasis on enterprise and innovation. At the same time, the level of funding has been declining since a peak in the late 1990s and as such has shifted from being a primary driver of all regional development expenditure in the region to a specialist funding source in support of certain areas of intervention only. These developments fit a changing programme logic in which the early regional need to deal with the problems of large-scale industrial dereliction and meet the infrastructure demands of major inward investors has largely been achieved. The growing emphasis on endogenous development and developing a regional innovation system and regional entrepreneurship support system and culture has clearly been met by a focus of expenditure on these themes. The next chapter therefore goes on to examine the achievements of these changing themes to examine whether the projects delivered by these programmes have met the objectives of the programmes and the wider needs of the region.

5. ACHIEVEMENTS ANALYSIS

This chapter examines the achievements of the ERDF programmes in the North East throughout the period from 1989 to the present. It examines the achievements reported in programme reports over each of the periods and the extent to which those achievements influenced the direction of the programmes over time through their effect on regional needs. It also examines the complementarities and synergies with other EU funded programmes, and with domestic programmes.

5.1 Reported & actual achievements

As already explained, the programmes have evolved over time with a shifting emphasis and orientation between major themes of engagement in regional development. So the analysis of achievements needs to explore both a programme-level and a thematic level. For each programme there are achievement data available which illustrate the results of the projects in terms of what they delivered and the effects they have had on the region, but an alternative perspective is to examine how particular themes of intervention developed over time and the evolution of achievements within each of these themes.

In the analysis that follows the emphasis is on the outputs of the expenditure made by ERDF supported projects, that is the measurement of activity or direct deliverables from projects. These include the measurement of the artifacts produced with ERDF assistance such as roads, buildings, the services provided such as the numbers of days of advice to businesses and the numbers of businesses and people assisted by the projects. These outputs then have effects on beneficiaries which have traditionally been termed results or gross effects, which are the things that the activity is seeking to change, such as improved performance by SMEs leading to employment growth and increased turnover. These results have sometimes been termed impacts in programme reports. The Commission's approach in the past was to describe impact as the net effects after deadweight, displacement and substitution, so recognizing that some of the changes were not caused by the intervention. The proposed change in the Commission's application of these terms is the result indicator will be applied to changes at a regional or sectoral level, so including firms that have not been directly assisted, and measured by use of a quantitative benchmark. Impact would therefore be the extent to which the changes in the results indicator could be directly attributed to the ERDF contribution. The analysis that follows is based on data that have been gathered using the older formulation of results and impact, relating to changes in assisted firms rather than using regional results indicators.

This section starts with an overview of reported achievements at a programme level, then examines in detail the evolution of the themes, placing the reported achievements in the context of evidence of actual achievements.

5.1.1 Programme level achievements

The reported achievements are built upon the reports made by projects to the regional secretariat regarding their outputs (and latterly results) and aggregated by the secretariat. The degree of detail and accuracy of these reports at both project and regional level seems to improve over time, although the format in which reports were made and the nature of the output indicators used has varied which makes comparison difficult both within programmes and between programmes.

The initial **1989-1993 programmes** in the region did not produce final reports outlining achievements, and reporting was made mainly on financial grounds rather than in terms of results, which means that achievements for this period are hard to assess, although the projects were predominantly infrastructure based. Simple physical output indicators were provided by projects to a database held by the secretariat, in Durham and Cleveland at least, although these indicators were primarily defined by the projects according to their nature – sq m of floorspace constructed, hectares of land prepared etc. The interim evaluation of the Durham and Cleveland IDOP (CURDS, 1992) suggests that not all approved projects provided output projections and few suggested possible impacts in terms of jobs created – this evaluation only examined a sample of projects so was unable to indicate aggregate achievements.

The only information available on aggregate achievements was a brochure produced by Durham and Cleveland in 1992 reflecting on the 1989-91 tranche of funding. This provides some indications of achievements, and also illustrates the local authority domination at that time noting that 64% of ERDF and ESF funds had been allocated to local authorities alongside 11.2% to central government and 10.1% to transport and public utilities. It is reported that:

- 1000 businesses had been assisted through for example central government co-funded schemes, the Northern Development Company and North East Innovation Centre;
- 48,000m2 of factory space had been provided and 200 hectares of industrial land improved;
- Transport improvements included support for rail signaling upgrades, a new container terminal at Teesport, a new instrument landing system at Teesside Airport and new link roads for industrial sites;
- Image improvement schemes included the restoration of historic town centres and improved sea defences; and
- Support for tourism included Beamish Open Air Museum among 30 existing tourist attraction supported and 17 new attractions.

There is no such information for the TAWSEN programme. It is therefore impossible to make any further comment on the reported achievements of these programmes other than to note that most of the projects were infrastructure projects and it was reported that members of the secretariat visited sites to check that the work had been done, taking photographs of the projects and the signs that they were funded by the ERDF.

The **1994-96 programme** introduced standardised output indicators which could be aggregated across each of the priorities. Indicators relating to outputs were produced for each project, but also the expected 'impacts' (as described at the time)or results in terms of jobs created and a range of other specific achievements. This programme had great problems in meeting the physical targets for infrastructure projects, generally approving projects which would exceed the targets but being unable to complete them in the time available. Priority 1, which focused on strategic sites and inward investment, met its initial targets but the other priorities all failed to meet their physical targets for land improved and new business accommodation (see Table 5).

Another area of slow development was the community economic development priority. Here, whilst there was good uptake in terms of community businesses supported, the completion of land preparation and new community facilities was slow and jobs created was considerably under target.

Table 5: Main output indicators for the 1994-96 programme

	SPD Target (A)	Potential Output Approved Projects (B)	B:A as %	Actual Output Approved Projects (C)	C:B as %
Hectares land prepared for development	300	1134	408	395	42.4
Hectares of land improved	150	214	214	13	3.7
Sq.m new/converted business accommodation	220,000	648,633	529	120,159	20.4
No. potential inward investors assisted	200	50	25	8	16
No. businesses to be assisted	14,300	32,164	215.1	31,986	110
No. alternative energy projects assisted	20	5	25	5	100
No. new/improved visitor attractions	50	97	162	15	18.5
No. marketing/promotional campaigns	65	21	32.3	21	100
No. community appraisals to be conducted	25	56	224	11	19.6
No. community businesses/co-operatives assisted/advised	100	536	536	190	35.4
No. community facilities built/improved	50	71	142	37	52.1

Source: Government Office North East 1999.

In terms of the employment results, the estimate of total jobs created was 14,633 against a target of 41,900 (see Table 6). Again, the short timeframe of the programme possibly had an effect on the realisation of the target, but also it seems likely that the target itself was rather ambitious. For some projects which were infrastructural in nature there would be a likely delay in jobs being created once the project itself was complete. A major element in the jobs shortfall was in the accommodation of jobs in strategic sites and many of these projects consisted of land preparation, so the actual buildings would not start until after these projects were complete. The jobs total here was reported to have been netted down to take account of duplication of outputs, but it is assumed that this is still an indicator of gross jobs created, not taking deadweight and substitution into account. It is not clear how the numbers of jobs safeguarded was collected in this programme, although this indicator was widely used in the region at the time, often it seemed when the numbers of jobs created from an intervention were vanishingly small. It is likely that much of this total was related to projects that assisted existing firms and that the extent to which the jobs were at risk was not assessed with any rigour.

The ex-post evaluation of the 1994-96 programme noted that the infrastructure projects were relatively expensive but should deliver their targets in time, but that the achievements of other activities such as business support and tourism were diluted by there being too many projects targeted at low level activity. This question of the relative merits of large and small projects was to be a recurrent issue over the various programmes with a general predilection towards larger projects on the assumption they were more efficient and were likely to make a greater difference. This issue is discussed in further detail later. Overall the evaluation estimated that the 'net impact' or results of the programme was 13,035 additional jobs by the end of 1998 but that an additional 20-25% of jobs would be likely to be created as a consequence of the occupation of sites and premises that had been developed.

Table 6: Main results[6] indicators for the 1994-96 programme

	SPD Target (A)	Potential Results Approved Projects (B)	B:A as %	Actual Results Approved Projects (C)	C:B as %
Jobs created *	41,900	59,080	141.0	14,633	24.8
Jobs safeguarded *	28,800	36,336	126.2	7,355	20.2
£m Private sector investment levered	97	1120	1154.6	168	15.0
No. new businesses set up	2,000	3,837	191.8	1875	48.9
No. additional visitor trips to the region pa	2,000,000	969,599	48.4	86,745	8.9
No. additional overnight stays pa	300,000	1,825,085	60.8	313,393	17.2
No. new community businesses/co-operatives established	50	38	76	6	15.7

Source: Government Office North East 1999.

The **1997-99 programme** report provided a much more diverse set of output indicators at the measure level, with standardised results (then termed impact) indicators only in terms of gross and net additional jobs (see Annex III for details). The final report for the programme noted that:

- across all ERDF measures the total gross additional jobs reported was 25,395, against an initial target in the SPD of 43,370; and
- the net additional jobs were reported at 13,267 compared with a target of 21,215 in the SPD.

The relationship between target and reported additional jobs varies considerably by measure with some exceeding their targets and other falling very far short. So, whilst measures on small business start-up and access to finance reached their targets, the big shortfall was in the measure on Strategic Economic Development Areas where despite a likely good achievement in the area of land prepared, the numbers of jobs actually created remained low at the end of the programme, and the forecast growth was still expected to lead to fewer jobs than originally targeted. In this case, examination of the projects funded showed that whilst the aim was to prepare large employment sites which could each accommodate over 1000 jobs, the actual projects were much more varied including some small workshop developments, cultural projects and even a university project. Those projects that were large-site developments were mainly incomplete at the end of the programme, and in some cases are still to be fully developed in 2012. Thus the targets set at the outset are only realistic if the projects brought forward are as expected.

The estimates of net jobs seemed to be made on the basis of standard ratios determined by the programme secretariat. The accuracy of the gross estimates is likely to be highly variable though and the evaluation of the programme suggested that a number of sponsors lacked a clear view of how their project resulted in 'outputs and impacts' (EKOS and ERS, 1999).

Other difficulties were experienced with some of the more intensive business support measures, where project sponsors tended to focus on less substantive levels of assistance for individual businesses and thereby reduced the job creation. Even then the final implementation report notes

[6] In the programme documentation results were described as impact indicators.

that net additional jobs are probably overstated as a result of miscalculation. Community economic development also performed poorly in terms of jobs created, especially in the creation of new community businesses. So the results of this programme were somewhat disappointing, partly due to a lagged impact as property developments were incomplete at the end of the programme, and partly due to choices made in the projects selected which had lower outputs than was forecast in the SPD.

The **2000-06 programme** again had a large number of detailed 'output' and 'results' indicators with great variation across measures. Overall though the programme had strategic objectives to create 33,308 net new jobs, to generate €1.2bn of net additional turnover within the SME sector, and to help 8,000 residents in target disadvantaged communities find employment. Aggregate analysis of project data in the final report suggested that:

- around 48,000 gross jobs were created with 56,000 safeguarded, which suggested 35,000 net new jobs were created using ratios established within the programme;
- estimates of net value added suggest an additional turnover of £1.7bn generated, or around €2bn;
- the results on disadvantaged communities could not be ascertained however due to the absence of follow-up records for individuals receiving ESF.

These aggregate results seem very impressive and exceed the targets, although have to be set in the context of a long boom in the national economy. Set against more specific baselines for the priorities, the scale of the problem and limited progress becomes more transparent.

- In terms of enterprise support there was an increase in number and rate of formation of businesses, with the stock increasing from 22 per 1000 population (aged 16+) in 2000 to 25 per 1000 in 2007. Entrepreneurship growth rates have been much higher than the national rates during the programme period, but a significant gap remains, as noted earlier in Chapter 2.
- The number of SMEs also grew from 54,165 in 1999 to 56,905 in 2007, again a positive change but the 2006 RES notes a need for some 20,000 new businesses for the region to move to 90% of national GVA.
- SME turnover grew dramatically from £23bn in 1999 to £35bn and accounted for an 11% higher share of regional turnover, but as already noted this was in a time of growth and the estimated ERDF contribution to this change was modest.
- On strategic sites, the level of derelict land as a proportion of previously developed land fell from 3.5% to 2.5% between 2001 and 2007 and the land available for strategic sites grew.
- Finally, the number of unemployed residents in target communities fell by almost half from 64050 in 2000 to 33,140 in 2008, although again this was a time of great national job creation and has been followed by steep increases in unemployment within the North East.

So the aggregate results for this period (see Figure 19) are positive but should be tempered by two concerns: that the regional problem is large compared with the benefits being realised from the Structural Funds; and that some of the noted results may be in part due to a strong national growth context during this period. From a theory-based evaluation perspective it is difficult to assess whether the programmes achieved real change without a focus down on the specific measures or themes where the intervention logic can be traced in more detail.

At the level of specific measures there remained some large differences between targets and achievements, mainly through underachievement, but occasionally the exceeding of targets. Some of the biggest cases of missed targets concern SMEs, with for example lower than anticipated levels of SME turnover growth, especially where the link between intervention and turnover is not clear. Innovation measures had a massive shortfall on new turnover and the number of SMEs given significant assistance, whereas SME clusters seemed to over-deliver.

Another particular problem in achievements against targets was in premises development. Measure 3.1, strategic spatial development over-delivered on greenfield land preparation, but under-delivered on actual premises, turnover and jobs, as projects were approved for site preparation, a major footbridge, and the Alnwick garden. Similarly measure 3.3 on urban and rural renaissance also had a big shortfall on premises and created no jobs or turnover in SMEs as this was all spent on culture and sport including the Sunderland Pool, Great North Museum, Tyneside Cinema and nature reserves.

The 2000-06 programme again made a specific mention of jobs safeguarded. The methodology for estimating what is a safeguarded job is not made clear, although some projects have surveyed firms assisted asking them to identify jobs that were existing, permanent, paid, full time equivalent (FTE), at risk and which have been saved by the intervention. At risk was identified as being forecast to be lost within one year. So the estimate of a safeguarded job depends on the view of the assisted firm on the status of a job that they say is expected to be lost within a year. Whilst the underlying principle is reasonable in that or some firms the intervention will help to preserve existing jobs that might be likely to be lost, the ability, or willingness, of a firm to accurately estimate jobs at risk must be questionable. The estimates of jobs safeguarded therefore are not likely to be credible.

Aggregate results for **2007-2013** cannot be provided of course as the programme is still underway, although interim results were produced for the mid-term evaluation (Regeneris, 2011). The evaluation showed that with around one quarter of funds spent at that time the programme had already exceeded its target of 450 new businesses in disadvantaged areas and was performing well in total new businesses created with around 45% of the target. The jobs created were lagging the spend to some degree as might be expected but were making good progress. However there was no discernible progress on the target of £450 spend on private R&D and very little progress on the SMEs with improved environmental management. There were however warning signs for the programme in that the withdrawal of Single Programme match funding with the abolition of the RDA has led to some project withdrawals and the pipeline of prospective projects has shrunk so the region risks missing its N+2 targets and hence failing to deliver on programme outputs.

Table 7: Aggregated achievements of the 2000-2006 regional operational programme

	Targets	Achieved
Gross new turnover in SMEs (£)	3,247,700,000	1,612,952,644
Gross safeguarded turnover (£)	2,555,400,000	1,342,087,423
Gross new jobs in SMEs	47,045	48,076
Gross safeguarded jobs in SMEs	38,625	56,347
Number of SMEs assisted	31,898	22,140
Area of greenfield land developed (ha)	48	134
Area of brownfield land developed (ha)	419	304
Area of premises development (m^2)	757,279	257,611
Area of premises refurbished (m^2)	265,503	66,715
Gross tourist visitors	4,849,737	3,091,925
Gross tourist expenditure (£)	242,490,000	70,921,809
Number of community groups/organisations assisted	889	1,937
Number of community facilities created/improved	133	152
Area of community facilities created/improved (m^2)	38,118	84,559
Gross person years of temporary employment occupied by residents of target areas	2,446	677
Target community residents into employment	364	186
Gross new turnover in community enterprises (£)	7,100,000	3,912,756
Gross new jobs in community enterprises	282	192

Source: authors' calculations based on data in Government Office for the North East (2010).

Programme indicator systems

Throughout this section a crucial issue has been the nature of the programme indicators used and the systems for the collection of data and derivation of results, particularly in the form of net jobs created. Over time increasing effort has been placed on improving the quality of data collection from project beneficiaries from the very limited output indicators collected for some of the projects in 1989-93 through to the more sophisticated data systems of the current programme.

Output indicators would seem to be relatively straightforward as they reflect the activities of the projects, although there have been problems relating to the qualitative differences in projects, which have affected the extent to which targets have been missed. Targets have been designed based on assumptions about costs per unit output, building floorspace for example, but beneficiaries may justify different qualities of buildings for different purposes, or where site conditions affect building costs. So whilst output indicators may be highly reliable in the case of building projects in terms of the amount of floorspace, this hides considerable internal heterogeneity in the quality of what has been built. Outputs which are focused on advice or support to SMEs are more problematic as they give no sense of the type of assistance provided, its quality, its fit with the needs of the firm, or the likelihood that the firm will be able to make use of the assistance in achieving change. Some attempt has been made over time to move beyond a simple total of firms assisted to specify the amount of support per firm, so defining assistance at different levels according to the numbers of days or cost per firm, but this still doesn't really address the quality question. Other kinds of projects lead to a diversity of outputs as the difficulty of fitting project outputs into a small number of standard indicators leads to a profusion of indicators, seen clearly in the case of the North East in 2000-06 with a long list of indicators of community economic development projects. This is not a problem for which there is an easy solution – if the requirements of regional development are for a diversity of projects then a diverse set of indicators will be needed to capture indicators, at least to check that projects are delivering what they have promised. Aggregating these outputs will be problematic though even where they can be standardised as the heterogeneity between projects and differences in quality or cost per output will mean that aggregate figures may be misleading and may not easily map onto initial targets based on assumptions about costs. There is an additional problem with aggregation as some projects are potentially overlapping in their targets whilst others are discrete. With infrastructure projects the outputs can be added as one building or road is separate from another, however with business support the same firm can be supported by more than one project. So the numbers of firms supported when aggregated include numerous duplicates, with the result that for some programmes the numbers of firms supported was more than the total number of firms in the region as many firms were being supported many times. It would seem more appropriate to call these output indicators the number of interventions in firms. There is no easy way of resolving this problem except by collecting lists of firms from each project and counting the number of duplicates – the data was not collected so this correction could not be made.

Results indicators present even more difficulties as there is the additional problem of estimating the consequences of an activity for firms assisted or individuals, followed by the problem of assessing net results taking into account duplication, displacement and deadweight. In the North East, projects were asked to provide information on results in terms of a limited number of specified indicators, mainly in the form of jobs created and safeguarded, and it was expected that projects would make this estimation from their contacts with firms. It is expected that these data are highly variable in quality. Resources were not available for the checking of duplication, especially if this occurred between measures – so if a firm received business advice and created two new jobs, but was also housed in an ERDF assisted incubator it is not clear how the programme could ensure that the two additional jobs were only counted once.

Distinction is made between gross and net jobs created, but this is based on a calculation of displacement and deadweight and a standard ratio applied across the programme. A rather high figure for 2000-06 for the net employment as 77% of gross was established during programme quantification, suggesting rather low levels of deadweight and displacement. It is not possible to assess without significant research whether these estimates are accurate, and whether duplication also has an effect, but it is possible that the true net effect may be lower than estimated. The estimation of net value added, another results indicator used since 2000, is even more difficult than employment as firms are reluctant to provide this kind of information and hence it is acknowledged in the final implementation report for 2000-06 that this indicator is incomplete.

5.1.2 Analysis by theme

The following section provides a detailed exploration of the achievements of the programmes organised by theme and examines both the aggregate reported achievements and detailed examples as reported through interviews and other sources. These are also related to the evolution of regional performance data over the period.

(i) Enterprise development

A growing priority within the programmes has been enterprise development including support for start-ups, business assistance and finance. At the beginning of the period this accounted for around 8% of ERDF expenditure, increased to around a third in the late 1990s and to 55% in the current programme. Over time the aim of the programmes has been to increase GVA and employment and this has been focused more and more through a focus on new firms and growing SMEs. Whilst during the 1990s this approach was perhaps seen as secondary to the attraction of large employers to the region, mainly in the form of foreign direct investors, the focus on SMEs has become the main priority during the 2000s, especially as prospects for FDI subsided from the late 1990s. The region as already noted has a very poor performance in new firm formation and much of its lack of economic dynamism has been explained as coming from a lack of entrepreneurship in the wake of the loss of traditional sectors.

At the outset, support for enterprise was primarily concentrated on the creation of incubator facilities for new businesses, and this activity has continued with the addition of built-in training and business support. A very significant element over time though has been the provision of general business advice by a combination of local agencies and region-wide programmes initiated by national government and later the RDA. More recently though this has been complemented by projects focused on building an enterprise culture, raising awareness of enterprise, and more significantly still in the development of a system of financing for start-ups and SMEs through the provision of venture capital. Projects have been developed that target particular groups of SMEs and entrepreneurs, such as specialist sectors (creative industries, digital, technology firms, social enterprise) and particular types of entrepreneur such as new graduates or people being made redundant. From 2001 onwards, after the introduction of the Single Programme as a major source of match funding for business support projects, it is very difficult to disaggregate the impact of ERDF funding from domestic funding sources.

As a result, and matching the broader trends identified in Chapter 3, we can identify at least three phases of enterprise policy development:

1) A property-led approach focused on incubator facilities in 1989-93 but running on into the following programmes. At this point. because the focus on the programme was on infrastructure. the main mechanism for supporting new firms was the provision of new workshops and premises, including the conversion of existing buildings for start-ups, with single-room units with easy-in/easy-out rental. This was important at the time however as much of the declining industry was in large sites that were inappropriate for start-ups, there was therefore a shortage of suitable premises for SMEs and there was little or no private sector provision of industrial accommodation due to low rental yields. The logic of intervention at this point was therefore on ensuring there were premises for new firms and providing incubation services.

2) During the late 1990s there was a shift to a more diverse portfolio of projects of both a capital and revenue nature, and sometimes combinations of both. This was still very supply-led, but was led by a diverse set of project proposers with little central steering of the mix of provision. The outcome of this seems to be highly varied with some very successful agencies and projects but others with much less success. Many initiatives were linked to

other strategies such as sectoral change or innovation. The intervention logic therefore shifted to overcoming a wider set of market failures for start-ups and SMEs regardless of their location within the region in order to stimulate formation and growth.

3) More recently, the focus has been more structured as the RDA sought to develop its own strategy for business birth and growth and has sought to rationalise business support. This has included a greater focus on the provision of finance through the Jeremie fund which has been the biggest single project in the period, and which brings together a range of different finance providers under a single system. The RDA also brought together much of the business support under a single regional provider, although this has now lost public funding in the wake of the RDA closure. Thus the intervention logic became more focused on developing a systemic approach to supporting entrepreneurship with a particular focus on finance.

This evolving system has not been without its difficulties. Initially the UK government restricted the application of ERDF to revenue-based projects which led to the focus of the funding on incubator facilities and other premises. As noted this did however meet a real need as there was very limited availability of suitable premises for new firms and the stock of business premises in the region was of poor quality. There were however other challenges to be addressed such as poor entrepreneurial skills and a shortage of finance and projects to support these emerged more slowly. Also during the 1990s various national DTI schemes for enterprise drew on the regional funds to part finance their activities. These included schemes such as SMART and SPUR providing finance for innovative SMEs, and consultancy support schemes such as Managing in the 90s and Business Link. For some of these schemes it is not clear that the funding from the ERDF led to additional projects in the region and it must be questioned whether there was any net additional benefit to the region, over what the programmes would have had anyway.

Reviewing the achievements of support for **incubators**, the region has developed a broad set of incubators across the region, covering a diverse range of needs from high spec facilities for technology firms through to small scale local facilities in disadvantaged communities and rural areas. Success in some cases has resulted in considerable expansion in situ such as the North East Business Innovation Centre in Sunderland, Design Works in Gateshead or Pink Lane in Newcastle, although not all schemes have had adjacent space in which to expand, or local demand. Most of the incubators have high levels of occupancy, and interviewees reported a number of cases of successful firms moving on to bigger premises. Given that a high proportion of firms in these premises have been new, then indicators of achievement are likely to have been reliable. Many of these incubators currently operate without ongoing ERDF revenue support, and so outputs continue to grow over time as new firms replace those that move out.

Prior to 1997 it is difficult to identify achievement data for this activity as only few incubators were built or supported within general industrial premises measures. In the 1997-99 programme a dedicated measure for facilities for SMEs was introduced with some 75 projects providing a forecast 84,530 m^2 of new accommodation and 35,750 m^2 converted accommodation with a forecast 3,685 additional jobs (probably meaning housed). Forecasts here are likely to be more accurate than the reported levels as many projects were incomplete at the time of the final report. The net additional jobs are more difficult to assess however as even the estimate of net additional jobs provided in the final report of 1,093 may include significant deadweight where firms moved from other accommodation. In 2000-06 however a measure for accommodation for entrepreneurs was more directly focused on start-up space, resulting in 27 projects and 800 new jobs in 33,600 m^2 of premises. In addition, another measure on accommodation for SMEs created another 130,000 m^2 of premises and was said to have created 1,200 gross new jobs. Incubation support continues with a measure in the 2007-13 programme although the first projects are only now being completed.

Successful incubators have been developed by a wide range of partners. Project North East is an independent non-profit enterprise agency and has developed successful incubators in Newcastle and Gateshead with ERDF support. In Gateshead, the Design Works incubator was developed in an inner industrial area using converted premises, and ERDF support was provided for a new build extension. This incubator focuses on design-based firms and has consistently operated at a high level of capacity. In Newcastle PNE have developed incubation facilities in a group of old buildings on the edge of the city centre through a series of ERDF supported projects. This site has become focused on media-based creative industries and has become known locally as Silicon Alley. Again it has run at full capacity. Silicon Alley is an example of good practice with creative re-use of redundant buildings to provide accommodation for creative industry start-ups, facilitated initially by excellent access to high speed broadband. The complex of buildings house around 70 businesses employing around 300 people, but a total of over 150 businesses have been supported through the development and many have moved on to alternative accommodation nearby as they grew. Some of the firms that have moved on are now operating nationally such as Orchid Software and Enigma Interactive, and the largest firm to come out of the development is said to employ 150. The project has won numerous awards including being recognised as one of the top 10 incubators in the world at the 2006 annual conference on Best Practice in Science-based Incubators.

Other successful incubators include the NE Business Innovation Centre at Sunderland which has expanded several times and has now reportedly helped in the creation of 530 companies and 3823 jobs. On Teesside the BoHo incubator also targets creative industries and has provided useful move-on accommodation for new software businesses coming out of the Teesside University Digital City programme. A recent feature of the region has been a number of university-linked schemes targeting graduate rather than staff spin-offs, and the Teesside digital incubator has created 132 new businesses and 190 new jobs since 2008. A key feature of Digital City is the integrated nature of support with fellowships, placements, knowledge transfer and start-up assistance alongside accommodation. A relatively new development is the emergence of incubators attached to major cultural providers in the region, focused again on creative industries, and linked with projects discussed below in the theme on structural adjustment.

These more successful incubators have directly responded to the intervention logic in encouraging and assisting the formation of new firms in high value added sectors. By creating a local buzz effect they have also stimulated some clustering effects, with Silicon Alley in particular creating an environment in which firms have learned from each other and exchanged ideas through communities of practice. In contrast, some of the more traditional workshop premises with limited on-site support have been of more limited benefit, with higher levels of deadweight as firms simply relocated within the locality, and often operate in local markets where there is significant displacement. Overall, this activity shows a mix of very good practice but also with some low impact projects.

Business development support has been an important element of the programmes since 1994, with very limited provision in the earlier programmes. The impact of much of the business support provision has been notoriously difficult to assess, even for the projects themselves, although some interviewees expressed considerable skepticism about the effectiveness of these measures. Concerns were expressed that some projects set unrealistic targets at the outset in order to ensure they obtained funding, and then over-claimed outputs in terms of numbers of firms assisted and impacts in jobs created. Even for organisations seeking to accurately measure the impact of intensive interventions, the effect of business advice on growth can be extremely hard to assess, especially if that advice does not relate to a specific project such as marketing a new product or improving quality. Even the firms assisted may find it difficult to attribute benefits to the assistance provided, or may prefer to think any improvements were largely of their own doing. As such projects are essentially limited to the duration of the funding and leave no legacy apart from the assumed learning by the firms, it can be difficult to find any trace of their impact once the project has ended. This is not to say that business support does not produce some learning within firms which has a lasting impact, but it is very hard to identify the good support from the ineffective.

A specific measure on advice for business start-ups was introduced in the 1997-99 programme to encourage greater numbers of firms to be created. Whilst there was an overlap with the work of incubators, many of the projects supported firms outside of incubators also, and included local authority schemes, major new programmes from the Training and Enterprise Councils (TECs) and some non-profit bodies such as Project North East and Entrust. Particularly through the TECs, large numbers of potential entrepreneurs were advised – over 9000 with 2,541 businesses established and 6443 gross additional jobs, although many of these were also supported from other measures also, so net jobs were estimated to be only 10% of this. By 2000-2006 a very much larger measure was put in place with the Business Link network replacing the TECs in this role and absorbing around half of the ERDF allocation for enterprise. In addition to the local authorities and existing non-profits, new providers emerged such as universities, cultural providers and organisations working with defined groups, such as Northern Pinetree Trust which supports people with disabilities. The reported achievements for this measure illustrate some of the problems of business support, as it was reported that 45,222 'new SMEs' were given advice valued at less than £800, with 3,109 receiving advice valued at £2000-3999 and 1684 valued at £4000-9999. This reportedly led to 15,651 gross new jobs. As the total number of firms assisted is equivalent to around 80% of the total regional firm population then there is clearly double-counting, and the level of assistance provided is probably in most cases no more than a few words of advice. Such support is unlikely to make a contribution to the change in entrepreneurial culture in the region. By contrast, some of the more hands on support has clearly helped to support the formation of new firms and their employment growth.

In Northumberland, one interesting project was the Aurora project which provided business advice to women entrepreneurs in the arts and crafts sector, who were mainly working from home or small rural properties. This expanded to support men and young entrepreneurs also and over a six year project in the 2000s supported 178 entrepreneurs and created 108 new jobs with a modest grant of £76,000. This was particularly important in targeting groups that often found it difficult to access support: women, people in rural areas, and the arts and crafts sector. The project has continued as a social enterprise, marketing the work of 250 SMEs. This type of specialist 'hands on' project seems to have been more successful than the general Business Links programmes.

Specialist business support has also been provided in areas such as marketing and the promotion of best practice, again with varied results. Some of these projects have provided intensive support for SMEs and enabled the development of significant company investments, whilst others have seen the provision of generic low level advice through brochures and seminars.

In terms of **innovative forms of finance** and business support, the co-funding of non-grant financial instruments was praised by several interviewees, who considered this to have been a major success of the current and previous programmes, and an activity that particularly lends itself to a regional-level aggregated approach. Under the 2000-06 programme, a host of investment fund projects culminated in the Finance for Business NE fund – 'that whole piece of work was successful, creating revolving evergreen funds so that money invested will come back to the public purse – create a bit of a legacy, and once legacy funds are available for the region to re-invest, it creates a virtuous circle'. In addition, the access to finance interventions are (said to be able to) move forward without public sector support – and this is perceived as a major sign of success. In the current programme, a total of £125 million has been allocated to a Jeremie fund supporting a suite of seven investment funds which target SMEs from different sectors and at different stages of growth.

Overall, as noted in Chapter 2, support for entrepreneurship did seem to be producing actual achievements in the form of real changes in regional entrepreneurship performance in the mid 2000s with growing levels of firm births relative to the population, and a narrowing of the gap with the UK average. There was also a slight increase in the total number of SMEs in the region, but the gap remained large. There is good practice in terms of some agencies, and some localised success in creating clusters of innovative firms around some incubators, but the scale of the problem remains large, and it is questionable how much the gap can be narrowed given that the national figure is heavily shaped by London and the South East with one of the most vibrant economies in the world.

In the current programming period with the Lisbon focus of the programme providing an emphasis on business support and innovation, it has been more difficult to maintain momentum into the recession. The changed economic climate coupled with institutional change in the UK has meant that these priorities have become more difficult on which to spend, especially as the programmes had been very dependent on RDA match funding (hence the current programme modification proposal to move funds from revenue to capital expenditure). It is perhaps too early to comment on the future of enterprise support in the region post-RDA, but the likelihood is that there will again be a more diverse set of providers and approaches within the region (as national support shrinks back to just a national advisory website) as well as a shift back to capital projects.

(ii) Structural adjustment

Given that a fundamental driver of change in the region has been the decline in the traditional primary and manufacturing industries of the region, and a slow transition to new industries, industrial restructuring has been a major theme for the region for decades. Consequently, a considerable proportion of the programmes has been devoted to sectoral initiatives, cluster development and diversification of the regional economy. This area of expenditure predominated in the 1997-99 programme where around 45% of expenditure was related to cluster initiatives, up from around 12% in 1989-93. Subsequently this has been a secondary theme underpinning others with no specific measures dedicated to this activity currently.

Initially the main focus was on the need to replace large scale employers with new branch plants as this was seen as a major opportunity in the 1980s and 1990s. The scale of the rationalisation in the early 1980s was very significant with the closure of plants that employed many thousands of people both in traditional (and sometimes locally or state-owned) industries such as engineering and shipbuilding as well as in newer externally owned industries such as electronics. Some electronics and telecommunications factories in the region which had closed by 1990 had employed up to 6000 people each in the 1970s. The perceived difficulty of replacing this scale of job loss with SMEs was such that the opportunity to attract new branch factories from Asian investors in the late 1980s and early 1990s was something the region could not afford to resist. The major success of this period was the attraction and expansion of Nissan in Sunderland, and a number of other Asian investors were targeted at this time, with ERDF being used to prepare sites and infrastructure, develop supply chains and embed new investors in the region through sectoral initiatives. Thus a major tool of structural adjustment in the early capital intensive programmes was the preparation of sites and premises for major inward investors (covered in more detail in the section on infrastructure below). With the shift to revenue measures though, sectoral and cluster strategies focusing more on supply chain development emerged particularly between 1994 and 2006. From the late 1990s onwards, however, the opportunities for attracting large manufacturing plants dissipated as multinationals looked to Eastern Europe instead, and some of the newer plants in the North East closed or relocated. Instead the opportunity for new large employers switched to call centres and the service sector with some infrastructure projects focusing on out of town office parks instead.

Sectoral strategies evolved over the 20-year period reflecting these developments outlined above as well as changing fashions in economic development. The sectoral strategy in the 1989-93 programmes was to a large degree driven by the opportunities in attracting FDI as well as some traditional regional strengths. This was not well reflected in the implementation of the programme and the only real sectoral orientation was towards tourism. During the 1994-99 period and to some extent the following programme, there was a greater emphasis on support for clusters, with specific project packages devoted to particular clusters which were based on a mix of indigenous and exogenous firms. During the 2000s, One North East developed an innovation led approach around three 'pillars', integrating innovation and sectoral support and focused on energy, health and process industries, although with ICT and creative industries as underpinning sectors, and this approach has dominated in the 2007-13 programme. The intervention logic has thus been heavily based on the development of clusters and on the promotion of supply chains. This has led to a diversity of projects as cluster needs vary from capital projects to collaboration, marketing or training, and different clusters have had a different mix of needs. The basic aim though has been to promote productivity, investment and collaboration within clusters with growth potential.

One particular sectoral focus which ran through the programmes from 1989 to 2006 was on **tourism** (and later related cultural and creative industries) and the programmes contributed to considerable investment in new tourism attractions as well as supporting the development of the industry. At the beginning of the period, the tourism industry was not well developed in the North East and the region had a particularly negative external image. The region's attractions were mainly in the form of its built heritage (castles, historic townscapes etc) and its natural environment. Over the 20 years this has been supplemented by a number of new visitor attractions: urban heritage facilities; major new cultural facilities; attractions in smaller towns; etc. For example, in the industrial town of Hartlepool a new maritime quarter was constructed around historic docks featuring restored ships and reproduction dock buildings – previously the town had no tourism profile at all. In Newcastle-Gateshead the new facilities included the Baltic contemporary art centre, the Sage concert hall, the new Millennium Bridge, the Great North Museum, the Centre for Life, the Angel of the North plus extensions to the Laing Art Gallery and others. Other major developments include the Alnwick Castle Garden and the Middlesbrough Institute of Modern Art.

The major concentration of cultural and tourist projects in Newcastle Gateshead represents a specific confluence of events:

- a strategy of Northern Arts to seek funds for major capital projects from Millennium funds matched by ERDF;
- the commitment of both Newcastle and Gateshead councils to culture-led regeneration;
- a strong interest in culture from the Tyne and Wear Development Corporation;
- a set of market opportunities in the region's biggest conurbation (the sixth biggest in the UK); and
- strong local visionaries across all the local partners

Annex I provides more detail on projects but the synergy arising from the concentration of investment has had a marked impact on reputation, including a *Newsweek* article listing the city as one of the top ten creative cities in the world. The accuracy of the claim is irrelevant, the point being that such as claim was being made by an international magazine and that it was invaluable free advertising.

A key element in the success of the region's cultural facilities has been a focus on excellence, and many of the ERDF funded tourism projects in recent years have been of a markedly higher quality than in previous years. According to one interviewee, it would have been easier and cheaper to demolish the Baltic building, but the project sponsors had a 'vision of excellence', which the ERDF contribution made possible. In addition to the major iconic projects, many smaller cultural projects were funded throughout the region, bringing largely derelict, run-down local sites back into use.

Some of these new developments have attracted extremely high visitor numbers and now figure among the top attractions in the region, with some achieving much higher numbers than originally predicted. The Alnwick Garden for example has been massively successful. A new visitor attraction attached to Alnwick Castle in central Northumberland, which started development in 2000, it was forecast to attract around 67,000 visitors annually in its business plan, but by 2003 it was already attracting 570,000 and with subsequent developments has been able to sustain visitor figures in the order of half a million a year with positive impacts also on other nearby attractions and for local businesses, given that Alnwick is a quite a small town (pop 7,600). Paid visits to the nearby castle increased from around 67,000 annually to 250,000. The garden employed 148 in 2004 rising to around 400 now. Whilst a lot of the visitors were from within the region, it was estimated in 2003 that half of visitors were from outside the region, half of all visitors were professional/middle class and hence spending more during their visit, and half of external visitors were new to the region (Sharpley, 2007). (Not all such projects were so successful: Nature's World/the Botanic Garden at

Middlesbrough also received several ERDF grants but has only 25,000 visitors annually and employees only six people).

The urban arts and cultural developments also attracted large numbers of visitors. The revitalised Great North Museum in Newcastle had ambitious targets to increase visitor numbers but it reached its first year target in a few months and attracted 1.3 million visitors in its first two years against an annual target of 300,000.

The Hall Aitken interim evaluation of the 1994-99 period suggested that tourism should cease to be a priority in the second half of the programme period; it argued that while the North East did have the possibility of developing a niche tourism industry, it did not have the capacity to sustain a mass tourism industry. The evaluators suggested that placing emphasis on strategic sites for inward investment might offer greater benefits. In hindsight, the virtual disappearance of the inward investment deal around 2000 leads to a conclusion that this advice was probably misplaced. Whilst the region might not support a mass tourism industry, there has been potential for growth in the sector.

A simple proxy for success in tourism is the number of nights spent in tourist accommodation establishments. Over the period to 2010 there was considerable stability in national levels of nights spent, with fluctuation but no clear trend. As a share of the national total the North East saw a fall from 1995 to 1998 to around 1.6%, but steady growth since then up towards 2.5%. This is still much less than the share of national economic activity in the region, but UK tourism is heavily concentrated in London and a number of hotspots (Oxford, Cambridge, Edinburgh, Lake District) so 2.5% is a realistic expectation. The region's tourism industry is however still fragile as shown by the fall in 2001 at the time of the foot and mouth epidemic which was focused in the North East. There are also concerns currently that the loss of the RDA as a single tourism promotion agency for the region has led to fragmentation of marketing and falling numbers, whilst in some other regions there was collective tourism agency independent of the RDA which has survived.

Other sectoral or cluster initiatives started on a small scale in 1994-96 with for example some small scale micro-cluster development work by North Tyneside Council, support for the growing offshore sector and some supply chain development work. This became more significant in 1997-99 within the sectoral employment packages, with packages for electronics, chemicals and offshore, as well as tourism. The offshore sector has been quite successful over time, helping to transform some of the sites and supply chain associated with shipbuilding to offshore fabrication and subsea development. North Tyneside's work on clusters with small firms in marine design and pipeline technology among others was successful in supporting the growth of the firms and their effective collaboration. In the case of pipeline technologies this later led to the firms collaborating with a local university to jointly establish a new MSc training programme for the industry, a model which has been taken up by the subsea sector more widely. The offshore and subsea sector has been one of the real success stories of the region, has established itself in international markets and is now moving into the offshore renewable energy market also.

Electronics was less successful. The region had acquired an electronics industry in the early 1990s mainly through inward investment, which included notable firms such as Fujitsu and Samsung. In August 1995 Siemens announced its decision to build a new state of the art £1.1bn semiconductor plant on Tyneside with a planned 1500 new jobs. This led to the reshaping of some existing projects in the 1994-96 programme such as the European Centre for Advanced Industries which was to have been focused on the marine design and offshore cluster but became in part the home for a supplier and training partner of Siemens. In the 1997-99 programme however a Micro-electronics Sector Strategy Group was formed to develop projects complementary to Siemens with a North East Microelectronics Institute, a centre based at Durham University, training at a local college and other related projects. Unfortunately, after a collapse in the price of semiconductors in 1997-98 Siemens and Fujitsu both decided to close their semiconductor plants in the region undermining the emerging microelectronics strategy (Charles and Benneworth, 1999). Some benefits were gained from the projects as the skills developed could be used by other sectors, and both plants eventually re-opened at a smaller scale by other semiconductor firms, but the region's ambitions in semiconductors were never fully realised and whilst the former Fujitsu plant is still operating (now under a third owner), the Siemens factory has been demolished with only the office block remaining as the Fabriam incubator, and the remainder of the site being rebuilt as a datacentre. This illustrates the precarious nature of some large inward investors and the risks of building sectoral strategies around them. By contrast the Nissan complex in Sunderland has sustained around 10,000 direct auto industry jobs and is now the biggest output car plant in the UK. Nonetheless the Siemens failure seriously weakened the region's commitment to inward investment, a point reinforced by a decreasing level of interest in the UK by mobile investors in the following years.

(iii) Innovation

Support for innovation became a significant activity from 1994 when it accounted for 14% of the programme. For subsequent programmes it remained at a similar level until the current programme in which it has become a dominant element at 45% of allocated expenditure. At the outset, the North East local authorities had developed a few innovation support organisations which sought funding to develop their activities and also the universities and colleges were keen to develop projects and units to engage with business. The ERDF introduced support for innovation through STRIDE and one or two discrete projects in the 1989-93 programme, and at the time local DTI officers pushed an approach focused on collaborative projects. This was taken up as a strong element from 1994 onwards with a number of the innovation projects being consortium based, notably the Knowledge House project involving all the region's universities (see case study in Annex I). The early innovation projects were mainly aimed at providing advice for SMEs and did not have much of a legacy orientation, although some college based projects equipped demonstration facilities. From 2000 though, a significant part of the innovation support was channeled into the development of centres of excellence as part of ONE's Strategy for Success, notably the New and Renewable Energy Centre (NAREC) and the Centre for Process Innovation. These were then joined by so-called innovation connectors, or sites for concentrated innovation spend such as Newcastle Science City, Teesside Digital City, Sunderland Software City and NETpark in Durham. So over time the focus on linking from university expertise to SMEs was complemented by some large capital projects building research and knowledge transfer capacity and sites which combined knowledge exchange with incubation.

There was a general agreement that the university based projects had transformed the focus of the universities towards engagement, and also built a culture of collaboration. The Knowledge House project was central to this, offering a single point of access to the region's universities through a shared process of building links and managing contracts with SMEs. This was the centrepiece of

Universities for the North East and was funded across 4 programmes and became acknowledged internationally as an exemplary project for connecting universities collaboratively with SME needs.

A series of university-based projects built much of the soft (and sometimes hard) infrastructure for university industry engagement in the region, in Sunderland University's Industry centre, Teesside's Enterprise centre and digital industry incubator, and projects to support the process, high volume manufacturing (especially automotive) and made-to-order engineering industries. A key project in the late 1990s, though, was the International Centre for Life which combined on one site basic university research facilities in human genetics, an incubator for biotechnology spin off companies, a major science visitor attraction and educational facilities for schools. This project, initiated by Tyne and Wear Development Company in partnership with Newcastle University, and funded by a variety of sources in addition to ERDF, including the National Lottery Millennium Fund, set a new precedent of major science and innovation infrastructures, which was then taken up in the RDA's first RES and later implemented as the Strategy for Success. The aim of the Strategy for Success was to use £250 million investment in research translation (partly funded by ERDF) to stimulate growth in knowledge based industries in the form of ICTs, renewable energy, process industries, nanotechnology and biotechnology. This was later revised to a focus on energy, process industries and health with a target of £1bn extra GDP in healthcare, £2bn extra in energy and £2bn extra in process industries. So whilst the scale of investment in support of innovation grew over the 20 years, so did the expectations in terms of regional impact.

The achievements of the innovation aspects of the programmes can be summarised as being of a number of different forms, and some of this has been assessed independently through evaluations and reviews outside of the ERDF evaluations. These include:

- **Building an innovation system in the region**: The North East had a very weak innovation system in the 1980s with weak private sector investment, no government R&D, almost no private non-profit R&D and a strength only in the university sector which was relatively disconnected from the region. Over 20 years the situation has evolved considerably with the development of a strategic framework for innovation, the creation of new institutions, the building of a non-profit sector, a more engaged university sector and considerable headway in the formation of new technology-based SMEs.
- **Changing the culture in the universities**: In the 1980s, the region's universities (and then polytechnics) had already committed to supporting local industry through their own voluntary association, Higher Education Support for Industry in the North (HESIN), drawing upon some modest project activities collectively, and individually, with national and local support. A change in EU and UK Treasury rules allowed universities to make use of ERDF from the early 1990s which enabled a considerable increase in activity, and especially collectively, later supplemented by new national third role funding from around 1999. The change in university culture is not easy to measure, although some indications of the emphasis on industry engagement are available from an annual national survey through the 2000s which show a large increase in effort within the universities and with the North East universities achieving some of the highest levels of business engagement in the UK. Although the culture change has been described as being quite profound, there has been a shift away from a regional collaborative approach among the universities most recently, partly influenced by the abolition of the RDA and a shift in policy orientation to a more localist agenda.

- **Direct support to local firms**: The direct effect on firms is reported as part of the normal reporting systems and focuses on the numbers of firms assisted, consultancy services offered and impact on jobs created. A core service assisted by ERDF was the Knowledge House brokerage system to connect regional SMEs with the region's HEIs. A review of Knowledge House revealed that from 1996 to 2006, some 1097 projects were undertaken with SMEs worth £7.7m to the universities against a £4.13m ERDF contribution. The average project value was £7,057 in terms of support and advice offered to each firm. The impact of these interventions on firms is more difficult to judge. Whilst some firms may have made some investments in new or improved products as a result, for many others the solution of technical problems may simply be a requirement of staying in business so jobs are safeguarded rather than created. In the 1990s a number of university projects provided direct support to firms as did some college-based projects which were more aimed at the use of manufacturing and design equipment. Some intermediary bodies such as RTC North also provided assistance via a number of projects, focused on different kinds of knowledge exchange and commercialisation, helping firms develop R&D capacity, and supporting innovation strategies. During the 2000s these actions have been supplemented by the activities of the new centres of excellence which have also provided direct support to firms.
- **Creating self-sustaining regional innovation institutions:** ERDF and the support in the 2007-13 programme has been perceived as instrumental in getting centre of excellence initiatives such as the NAREC renewable energy centre up and running; the ERDF element was instrumental in putting in place a much more sustainable model, as the initiative was set up on the basis that it would become self-sustaining. However, the innovation focus makes it less straightforward to demonstrate progress of outputs. Both NAREC and the Centre for Process Innovation (CPI) have been able to use the base of RDA and ERDF funding to build facilities which have subsequently attracted national funding under the Catapult Centre programme, Framework Programme grants and industry contracts. CPI was established on Teesside within the former ICI corporate research labs building and has developed a range of laboratory and pilot production facilities which can be used by industry. It now has an annual turnover of £12.5 million, employing 200 staff and has worked with over 2000 companies in 200 projects with a total value of £298m. CPI claim to have supported the creation of 2,700 jobs, assisted in 130 company start-ups and leveraged £500m of investment. As an example of the benefits to the region, one new start-up firm, Plaxica, from Imperial College London approached CPI to access their facilities and now have established a team of 20 staff permanently in CPI facilities on Teesside.
- **Innovation connectors:** The most recent form of intervention has been the development of sites and activities across the region to link the research base with business activity and wider community engagement. This innovation connector programme includes major sub-regional programmes such as Newcastle Science City, Durham's NETPark, Digital City in Middleborough and Software City in Sunderland. These have been initially evaluated as part of the review of One North East's innovation programme (Simmonds and Stroyan, 2008).

Taking aggregate indicators of R&D activity as illustrating some changes, it has already been noted in chapter 2 that R&D expenditure in the region rose modestly in the 2000s to narrow the gap with the UK average, although the long term effects of recession cannot be estimated yet.

Patents are one indicator of R&D outputs, but the analysis of EPO patent applications per million inhabitants shows little impact of ERDF in the region. Whilst there was modest convergence between the region and UK levels up to 1994, the North East then leveled out as the UK level continued to rise. After 2000 modest growth in the North East at the time of strong ERDF investment compared with a national fall in patents, again producing some convergence before all patenting levels collapsed in 2009. The evidence of patenting levels then is not convincing and indeed the changes over time in the region probably reflect more the activities of a few large firms and universities rather than changes within the SME sector.

(iv) Environmental sustainability

Whilst environmental sustainability appeared in measures in the late 1990s and has been a continuing theme, with for example support for innovation in new and renewable energy, it has been less significant than some other themes outlined here, with expenditure never rising above 5% of the programme. These measures have struggled to spend their allocations despite relatively small allocations of funding. In 1994-96 as a relatively small measure some of the funding went into an energy efficient building and university and college programmes. Much of the 1997-99 programme also went to universities and colleges plus the Northern Energy Initiative. Much of the emphasis was on SME environmental audits and renewable energy feasibility studies. The achievements of these projects have been extremely modest, usually reported as numbers of firms advised on energy efficiency, and the effect on jobs in the green economy does not appear to have been significant.

Perhaps the most significant achievement though has come from the development of the New and Renewable Energy Centre (now National Renewable Energy Centre) during the 2000-06 programme and which has subsequently become a national centre and is a major part of the new national Catapult centre for renewable energy. This has actually been funded out of the innovation measures rather than sustainability, but has been at the heart of a renewable energy sectoral initiative which was a central part of the Regional Economic Strategy. NAREC reports a total of £150 million invested over the past decade in building a national facility for the development and testing of renewable energy technologies, and this is currently in use by a number of firms from the North East and the rest of the UK. Among other firms supported, NAREC has spun out a photovoltaic company employing 15 people.

(v) Social inclusion

The inclusion of ‘softer’ community economic development themes was a major change introduced by the 1994-99 programmes. Prior to that, projects did not really respond to the needs of the very badly deprived parts of the region. The emphasis in early programmes on support for FDI meant that interventions focused on, for example, large site preparation, access road to sites, utilities and large scale training programmes to meet the needs of companies coming in; there was less emphasis on entrepreneurs and SMEs in the region, and ‘some of the really bad areas were allowed to get worse’. Nonetheless, social inclusion measures were always a small element in the programmes hitting a peak of 9% of expenditure in 2000-06.

The Community Initiatives such as Rechar and Renaval were perceived to have helped pave the way for some of the more localised area-based development that the programmes came to finance in later periods. Rechar in particular was considered something of a trailblazer for CED, as the programme operated 'looser' eligibility criteria than the mainstream ERDF programme at the time(for example, Rechar could fund projects such as community centres, i.e. projects with a community development purpose rather than an economic development purpose. These 'looser' criteria eventually spilled over into mainstream programmes.

The tighter focus of the 2007-13 programme on the two programme priorities of innovation and business development resulted in a lot of pressure from local authorities and other local interest groups to introduce a third priority for sustainable communities. Social inclusion within the ERDF programme has been focused instead on a series of 'innovation connectors' – geographically and spatially spaced across the region, e.g. around Science City and NAREC, where activity would involve reaching out to the community, raising awareness and building links into schools.

With the packages of community economic development projects, some of the funding was directed to the voluntary sector and other community-based groups, however this partly depended on the policies of local authorities. Some local authorities maintained large units devoted to community development, and a substantial share of the funding was kept within these units to cover salaries and related costs. Others, and South Tyneside was mentioned as an example, retained only small commissioning teams so almost all of the funds were devolved to local groups and hence the impact on the ground was probably greater.

Much of the achievements of the community projects have been focused on capacity building among community organisations, constructing or building premises for community groups and from which training and advice programmes can be delivered, creating childcare facilities to assist mothers to return to work, and supporting the development of community enterprises. In 2000-06 some 283 community enterprises were assisted of which 142 were new, but only 192 new jobs were created and it seems that a majority of new enterprises did not survive beyond public funding.

The impact of community economic development activity divided interviewees, for example, 'Spending at the community level sometimes gets overtaken by events, but if you speak to partners, they will say they miss it.' It has been noted as having been very valuable on a community and individual level, but it is 'a little more difficult to see if it really hit the mark'. One interviewee pointed to domestic examples such as City Challenge and the Single Regeneration Budget (SRB), asking 'How successful are these programmes? A lot of money goes in but do things ever seem to change?' As another commented, while some major, key job-creating projects have been funded, they were not necessarily for those most in need – 'there is still a long way to go before the most deprived communities share in the benefits – the most difficult things to change take the longest.'

(vi) Infrastructure

The early programmes had considerable allocations to infrastructure which have largely disappeared in the current 2007-13 programme. Up to 80% of the 1989-93 programmes was concentrated on major physical infrastructure in the form of road improvements, rail, sewerage, industrial estates etc, largely delivered by the local authorities. There was a general view that much of this was necessary for economic development purposes but had limited direct impact on regional development. One view expressed was that the region began the period with a legacy of underinvestment in basic infrastructure which limited its potential and that this investment needed to be made in order to attract external investors and retain successful companies. So road connections, rail and port links, airport developments and suchlike were essential investments but were facilitative rather than direct job creators. Similarly the region had a limited and poor quality stock of industrial premises and a market failure in the private sector provision which could only be met at the time by publicly funded construction. In subsequent programmes infrastructure was scaled back to around 25-30% of expenditure, with a shifting emphasis towards industrial property rather than transport, although some further capital expenditure under other thematic areas may also be classified as infrastructure.

Much of the support for transport infrastructure was concentrated in the 1989-93 period as in subsequent programmes provision was only made for a few key gateway projects and the extension to the Tyne and Wear Metro. In the early period road improvements were focused on the enhancement of important freight routes within the region, especially linking industrial sites with ports and motorways. Some of these projects were quite small and specific such as upgrading of certain junctions and dualling sections of road. As such it can be difficult to ascribe specific benefits to the region as the focus was on improving existing access roads and reducing journey times. Some funds were provided to the then British Rail for major upgrading of the main north-south route through the region, and also to the port authorities for the modernisation and extension of the region's ports. The latter of these were focused on freight export with the expansion of roll on roll off facilities and related roads in the ports.

The two airports in the region were also important beneficiaries with for example a new taxiway parallel to the runway at Newcastle Airport and terminal extensions at Teesside Airport. Newcastle airport has seen significant growth over the period with passenger numbers more than doubling from 2.6 million in 1997 to 5.6 million in 2007 but then dropping back through the recession to 4.3 million, but this growth would have occurred without ERDF assistance as this was a small fraction of total investment. Whilst Teesside saw initial growth, passenger numbers have collapsed since 2006 from 917,000 to 192,000 in 2011 and the airport is currently facing financial difficulties.

The Tyne and Wear Metro extension to Sunderland was the largest single ERDF award in the UK at the time (c£13-14m) in 1997-99. It was seen as a key piece of funding to complete the package to extend the Metro, although interviewees speculated that the benefits of the extension are not those originally argued for in the programme. The rationale was to give residents of CED areas increased access to employment and training via improved transport, and a new line was constructed beyond Sunderland City Centre through a number of disadvantaged communities. This provides better access from those communities not just to Sunderland city centre but beyond into major employment centres on Tyneside and in central Newcastle. Another main beneficiary has arguably been the University of Sunderland, in terms of commuting students, although the service is well used by the general public and in the subsequent 10 years the extension has carried 40 million people.

In the late 1990s the infrastructure expenditure was more targeted around specific needs of major investment projects with a focus on strategic sites and gateway developments. In practice though these were highly varied. Some local authorities sought funds for modest environmental improvements on industrial estates that were arguably non-strategic, whilst others identified flagship schemes aimed at attracting major new investors. The contrast can be seen between projects to make minor environmental improvements to industrial estates such as in Aycliffe or

Hartlepool where impacts would be small and key strategic sites such as Newcastle Quayside site preparation, Sunderland's Doxford Park, the European Centre for Advanced Industries and the International Centre for Life which were flagship new developments (the latter two providing accommodation for new technology businesses). Similarly with the gateway facilities, airport expansions, metro extensions and port developments can be contrasted with the enhancement of the bus station in Consett. Some of the smaller developments may have been important for the development of their own specific communities, which were often in great need, but were not necessarily strategic sites at regional level which was the intention of that element of the programme. In Sunderland ERDF was used to support projects in the Doxford International Business Park which has been successful in attracting major corporate tenants as well as new local businesses. Around 8000 people are now employed in Doxford, mostly in corporate offices and contact centres for the likes of Barclays, Royal and Sun Alliance, EDF, HP Enterprise Services and others.

In the 1997-99 programme there was further retrenchment of infrastructure spending on a small number of large packages within one measure. Some of these projects have been highly visible and transformational. A key example was Newburn Riverside, in Newcastle, a very large and very badly contaminated site which was reclaimed after the demolition of a coal power station and the Anglo-Great Lakes graphite works and is now an attractive modern business park with considerable expansion capacity still, although it has mainly been occupied by the public sector including until recently the main office of One North East. Other examples include the internationally recognized Grainger Town regeneration project in central Newcastle which sought to bring underused 19th century buildings back into use, upgrade public space and make the area more attractive to business and housing investment. Again this investment has added to the revitalization of the city centre, although the ERDF contribution was relatively modest focused on a few small building projects.

In terms of achievements of these projects, the difficulties of attributing benefits can be seen from the final report on 1997-99. Whilst forecasted outputs in terms of hectares of land prepared for development and the business premises constructed massively exceeded the targets, the reported achievements were lower than targets, private sector leverage and temporary employment were also well down on targets, partly due to delays in implementation and slow development of the completed sites. Ten years later many of these sites are now mature and there has been considerable development by the private sector. Aid for site development on Newcastle Quayside in 1994-96 for example has led to the creation of a new business and leisure quarter for the city which was developed without ERDF assistance for the office construction. Not only does this accommodate probably a couple of thousand jobs, notably in legal services, but it provides a high quality backdrop for the tourism developments on the riverbanks and has been a major part of the image change of the whole city, as has been the Grainger Town development.

Interviewees argued that ERDF enabled some of the more marginal business environment projects, for example, Newcastle Quayside, to use their own funds to obtain a much higher specification in terms of build, landscaping etc., making them ultimately much more successful than non ERDF-funded business development projects, because of their additional quality. In cases such as Newcastle Quayside this enhanced quality was undoubtedly a major part of their success, but it has also helped to raise quality across the wider region.

The 2007 evaluation by Fraser Associates of the impact of EU and domestic funding on the Newcastle-Gateshead Quayside and St Peter's Riverside Sunderland found that the additionality accruing to ERDF support for Newcastle East Quayside was both temporal and qualitative. The report found that ERDF considerably extended the overall funding available to Tyne and Wear Development Corporation during its lifetime and enabled this and other flagship schemes to proceed more quickly and more fully within the life of the UDC than would otherwise have been possible. Within the regeneration of East Quayside, ERDF was focused on three elements:

- reclaiming and preparing for development the areas of the scheme that would carry ERDF eligible end-uses (i.e. essentially non-retail commercial uses);
- supporting a higher quality public realm within the commercial area of the scheme, including public art; and
- providing gap-funding for the developers to deliver a higher specification of office development than the market would otherwise bear at the time of the investment.

Similarly, the report found that ERDF played an important role in enabling Gateshead Council to unlock other funding streams such as Lottery funds for the Gateshead Quays Scheme. So, while the overall EU contribution in terms of funding may have been modest, 'it has played a significant role in shaping the outcomes:

- by moving elements of the schemes forward faster than would otherwise have been the case.
- by supporting a higher quality of built development than would otherwise have been secured.
- as a component of match funding needed to unlock large and time-sensitive funding opportunities.'

Some of the more recent site preparation projects have struggled to find developers able to complete buildings in the current economic crisis. The Middlehaven development in Middlesbrough for example received nearly €6 million ERDF towards projects totaling €22 million in the 2000-06 programme for access and site preparation for a landmark riverside development. However a series of development projects have fallen through leaving a large area of vacant land near the city centre adjacent to the local football stadium and a new tertiary college (which was not ERDF assisted). It is unclear in the current climate when this site will be developed. Another major land reclamation site on Teesside is the North Shore development in Stockton, opposite a successful business park which was developed by Teesside Development Corporation largely without ERDF assistance. A key part of the development is a €17 million footbridge linking the two sites and built with €4.6million of ERDF. Again when this site is developed it will be able to accommodate several thousand jobs, but whilst the site has been decontaminated ready for development the £300million plans for the site have yet to take shape. The site will include business accommodation, a hotel and an extension to Durham University's campus on the other side of the river.

Overall the infrastructure developments in the region have helped to remove some of the worst of the post-industrial blight and assisted the creation of new business environments and the connections to the national and international transport networks. Some of these rejuvenated sites are now occupied and fully functioning, attracting manufacturing and office users from outside the region. The most recent developments though have been held back by the current crisis and will take some time to reach fruition.

(vii) Territorial issues

A central issue in matching achievements with need in the region has been the territorial nature of some of the region's problems and the ways in which the varying forms of intervention relate to those places. This section examines the distribution of assistance and its effect on particular locations within the region to assess how the programmes have affected internal disparities within the region, rather than looking at a particular theme of expenditure. Whilst the region as a whole suffers from a variety of structural problems, there are particular places in which concentrations of disadvantage are particularly resistant to change. The early infrastructure projects targeted some of the most disadvantaged areas as these areas were often the location of large closures either of manufacturing or mining leaving extensive areas of contaminated land or buildings with no future use, next to communities with high levels of unemployment and often various other forms of social exclusion. Some of these areas were in the urban cores, whilst others were in the smaller mining towns of the Durham and Northumberland coast.

In the main urban areas, on the three rivers of the Tyne, Wear and Tees, most of the key sites have been along the riversides and concentrated effort has gone into redeveloping these sites for a mixture of employment, housing or leisure. Many of the early programme projects were focused on these locations, and especially in the late 1990s when two urban development corporations undertook considerable regeneration and were able to provide large amounts of matched funding for big infrastructure projects to decontaminate land, regrade land for development, rebuild quaysides and invest in selective landmark projects such as public art and university campuses. Some of these sites are now the archetypal successes of the region such as Newcastle Quayside, Newcastle Business Park, Royal Quays, Hartlepool Historic Quay, Stockton Riverside, Sunderland St Peters. In each of these cases ERDF has been an important component in their success, usually as part of the land preparation project, or also for anchor activities – the quayside museum visitor attraction at Hartlepool; the Centre for Advanced Industries at Royal Quays, the National Glass Centre at Sunderland St Peters. It is the success of some of these developments that had led some members of the regional partnership to take the view that the regeneration job was largely complete and that the emphasis should shift to helping to fill these sites with new businesses. Indeed several interviewees reported that the uptake of business support, venture capital and support for innovation has been concentrated in the Tyne and Wear conurbation in particular where these successful urban regeneration sites sit alongside the advantages of a major urban agglomeration with universities, good cultural facilities (also ERDF supported) and a pool of local talent. Teesside has struggled more to achieve success on this model as it lacks the scale and metropolitan character of Tyneside and had relatively more extensive areas of derelict land and fewer urban assets, but there has been some success with Stockton Riverside and the revival of the chemicals industry.

However, more entrenched difficulties are found in the former mining towns along the coast. Here the mining closures devastated small towns whose whole rationale was to house and support the workers in the local mine. Whilst ERDF has gone into the reclamation of the pit sites and the building of new industrial estates, as well as into community development projects, the results have been less promising. The towns themselves are often not attractive places but have relatively poor accessibility to the main urban centres, they lack a local middle class and entrepreneurial potential and have extremely high levels of worklessness. Turning these towns around will require considerable effort over a number of years, and the region has not had the resources or time to complete this task.

The town of Seaham in County Durham is perhaps the most successful case, although by no means a finished product. Seaham grew as a colliery town and coal-exporting port immediately to the south of Sunderland with three large collieries remaining into the 1980s surrounding the town and employing around 3000 people up until the final closures during the 1989-93 period. Although Seaham had some physical assets, much of the housing was relatively poor, it had three large and highly contaminated mine sites, the local beaches had been used for the dumping of colliery waste and its access was relatively poor also. Following the closure of the mines the sites were cleared and restored – housing was built on one, and a business park was built on another with ERDF assistance. The beaches and harbour were restored and a local entrepreneur converted a nearby country house into a five-star hotel and spa complex. The town is much improved yet still has high unemployment, many of the business park units remain unlet and most of the people who have bought the new houses presumably work in Sunderland. For other former mining towns further to the south with less investment and poorer access to the urban core the prospects remain poor.

An attempt to develop an integrated approach to these problems was undertaken in the region's Urban II programme which was focused on Hetton and Murton, two other former mining villages immediately inland from Seaham but straddling the Sunderland-Durham boundary. This sought to bring together integrated support in a relatively small community for engaging young people, empowering the community and supporting physical regeneration and business development. Whilst the projects supported were able to reach their output targets in terms of numbers of people involved in some of the community initiatives and numbers of people receiving counseling, the programme struggled to make significant achievements in support for business. Even physical development outputs were difficult to achieve because of low local demand and a lack of public or private sector developer interest in developing new premises other than in the nearby Rainton Bridge Business Park which is still only partly developed.

With the shift of support away from physical and community regeneration towards support for innovation and growth businesses, the areas which had failed to benefit greatly from earlier programmes due to their lack of growth potential and weak asset base, are now further disadvantaged as they have few firms able to benefit from support. Thus the territorial imbalances within the region are becoming further exacerbated.

5.1.3 Institutional factors affecting achievements

A number of organizational and administrative factors had an impact on programme achievements over the periods in question. During the 1989-93 period, North East England was the first English region to introduce selection criteria. This was in response to increased competition for funds and an over-bid situation when the 1991 Kerr-Millan agreement on additionality opened up the programmes to a wider range of potential applicants, including Urban Development Corporations, universities, colleges and the voluntary sector. The introduction of project selection criteria meant that the contribution of proposed projects to programme objectives could be more systematically assessed. Project selection systems were developed further during the 1994-99 period. One of the useful roles of the system was to give the programme Secretariat an indication of what lay ahead in terms of project applications, enabling a more strategic approach to be taken. In an attempt to improve the strategic approach to projects supported, a number of other mechanisms were introduced during the 1994-99 period, including the Local Action Plan Groups introduced in 1994 as informal committees, the membership of which was agreed at the local level.

During the second half of the period (1997-99), there was recognition of the need to increase the strategic approach, taking an overview of the totality of actions in an area rather than examining projects on a one-off basis. With this in mind, a priority-based package approach was introduced. The package approach involved 'coherent set of actions addressing areas or sectors', effectively reserving a portion of funds for a particular area. The approach was intended to improve the quality of projects, spread out the workload associated with application processing and ease the administrative burden on applicants. In practice, the approach was not wholly successful. Applicants saw that money was reserved and made less effort on developing projects, as they thought the projects would be automatically approved. For some packages, though, specialist advisory boards were established that reviewed proposals, and even cross-examined proposal sponsors. For the innovation measures, these ad hoc boards were able to bring together a greater set of expertise to comment on proposals, leading to the withdrawal of some weaker proposals and strengthening of others. Although around 85 percent of the programme was delivered through packages, around 15 percent of the programme, which was allocated to "strategic areas" was dealt with separately. This was generally associated with bigger projects and there were difficulties in spending this part of the programme. As a result, the objective of using packages to improve project quality and hence achievements was not fully realised.

Implementation of the 2000-2006 programme got off to a slow start due to the foot and mouth crisis in the UK. One of the main challenges during the period was the need to improve the efficiency of administration. Despite efforts to improve the situation, the Secretariat had been swamped by applications in 1997-99 (it was estimated that approximately 3,000 applications were processed in an 18-month period, many for under £25,000). There was a need identified for less Secretariat time to be spent processing applications, and more on programme management, monitoring and evaluation. The packages approach was renewed due to its popularity among local programme partners, and two-thirds of the programme budget was bound up in eight packages.

Provision was made for local authority-driven geographical partnerships to continue the action plan role. The geographical partnerships each set up four sub-partnerships reflecting programme priorities (business support, technology etc.) involving different mixes of partners. It is estimated that there were around 70 packages in all. As part of a package quality control process carried out by the Secretariat, there was a strategic agenda of getting best possible value. Part of the approach involved implicit aims of shifting partner focus onto output-based ways of thinking within the package approach. The Secretariat used the programmes' output targets to discuss with partners the contribution of project proposals and the anticipated impact of packages, so that more emphasis could be put on achieving the more challenging outputs that contributed to results rather than less significant outputs. The Secretariat also wanted to promote an avoidance of double counting among agencies within the packages. However, the package initiative had a number of negative effects - due to complacency among the partners who assumed they had a fixed allocation of funds and therefore put less effort into developing their proposals, the quality of project applications worsened. There was a huge volume of individual projects submitted and the Government Office was severely understaffed: the net result was that the turnaround time for project applications became very extended.

More positively during this period (2000-06), the Secretariat was a strong advocate of the ongoing evaluation approach, and after the mid-term evaluations were carried out, two consultancy firms were kept on a retainer to carry out ad hoc studies when required, as part of a rolling evaluation process.

For the 2007-13 programme, the management of the programme passed to the Regional Development Agency (RDA), ONE NorthEast. The availability of 'wrap around services' from the RDA e.g. in the field of State aid, was seen as a valuable resource for project applicants and sponsors. However, the retention of expertise during the transition of responsibility of ERDF from the Government Office to the RDA was a particular issue during this period. Post-contract project support and monitoring was strengthened with the introduction of Project Engagement Visit, and the out-sourcing of verification visits to an external accountancy firm. With the subsequent abolition of the RDA in 2012, the programme management team was transferred back to central government in the form of the Department for Communities and Local Government.

A key feature of the implementation of Structural Funds programmes in North East England across several programme periods has been the strong emphasis on the achievement of the programme in terms of its support for the functioning of a strategic partnership within the region. During early programme periods, there was no domestic strategic body for regional development in the English regions. There was a major transition during 1989-93 and the following periods in terms of partnership in the region, with a much wider range of type of partners becoming involved, both as beneficiaries and in programme management via the PMC and other groups. The Structural Funds programme became the main forum at which people came together to talk about regional development at a strategic level, and the availability of a partnership forum was credited by interviewees as resulting in more strategic (better) projects being developed, as it encouraged sponsors to work together.

5.2 Complementarities and synergies

5.2.1 Complementarity between ERDF-funded programmes

Information on complementarities between Structural Funds during the 1989-93 period is very limited. The Ernst & Young (1996) EU-level evaluation of the period described linkages between ERDF and ESF in the North East England region as being generally weak. Coordination improved in 1994-99, when the PMC of the Objective 2 programme and the Objective 3 Regional Committee worked together to try and improve complementarity of ERDF and ESF, and a Regional Coordination Group pursued linkages between the programmes. Further, at project level, the programme Secretariat in the regional Government Office attempted to encourage the development of projects bringing together ERDF and ESF funding. One of the best examples of ERDF/ESF synergy at that time could be found in the Community Economic Development (CED) strand of the programme, which was designed as an integrated process. A feature that emerged during this period was the development of packages of ERDF and ESF projects targeted on individual communities to provide coordinated response. Most synergy with EAGGF occurred under the Northern Uplands Objective 5b programme, which included ERDF and EAGGF allocations.

The pursuit of ERDF/ESF synergy continued into 2000-06 and the programme was reportedly considered by DG Employ to be a 'model' of Objective 2/Objective 3 complementarity. The Programme Secretariat continued to try to pursue synergies between ERDF and ESF projects, especially in the area of Community Economic Development, although it was found to be very difficult.

In the current period, there is one national ESF programme for England, and the lack of synergy with the ERDF programme has been noted in the region. There is no sense of the (national) England ESF programme for 2007-13 having been written 'to back up ERDF'. For example, the England ESF programme does not support high level skills, which are the focus of the ERDF interventions in the region. In addition, there are fewer opportunities for linkages after abolition of the regional ESF committees in 2010. North East England was the only English programme to apply to use the cross-financing facility, anticipating that the flexibility might be used to support high level skills training in the region, but in practice this was found to be too difficult to implement.

For EAFRD, the emphasis during 2007-13 has been on demarcation and differentiation to avoid overlap. In England, the RDAs were responsible for several strands of the EAFRD-funded Rural Development Programme for England (RDPE) (socio-economic elements – axes 1, 3 and 4); post-RDA abolition management of RDPE was centralised within DEFRA.

5.2.2 Complementarity with domestic regional policy

The North East programme has had strong complementarity with the domestic policy agenda over the periods surveyed.

In the 1989-93 period the programme has been described as being a 'funding vehicle for an existing strategy', which suggests that synergy was high with existing domestic policy at the time (heavily focused on encouraging inward investment) (Ernst and Young 1996). Synergy with domestic funding streams continued in 1994-99, assisted by the location of the ERDF programme secretariat (composed of Department of the Environment (DoE) and Department of Trade and Industry (DTI)) in the regional Government Office, where staff could work with other government colleagues to achieve complementarity, in particular with the DTI strand of funding. The Government Office had a number of regional policy responsibilities, combining the regional aspects of the activities of the DTI, DoE, Department of Education and Employment, and the Department of Transport. The Government Offices were intended to provide a regional dimension to the application of national departmental policies and to promote partnerships between local development agencies and the private sector for economic development purposes. This included assisting input from regional and local partners into bidding rounds for the government's Single Regeneration Budget and regional state aid decisions.

For approved projects, the programme secretariat had to seek confirmation that the project did not conflict with national policies from the relevant government department. This confirmation, termed 'policy cover', had to be sought in order to gain 'expenditure cover'. The process was straightforward when the DTI and DoE were the ministries invoked, as the authority then rested with the programme secretariat. However, with transport, tourism, training, and arts projects, for example, this could cause significant delays. ERDF was frequently used to co-fund domestic policy initiatives, such as Business Link, Single Regeneration Budget (Structural Funds support was a feature of the majority of successful SRB packages), Capital Challenge and City Challenge.

There was less complementarity between the Urban Community Initiative and the domestic policy agenda, and a lack of synergy between the local and national levels policy agendas was blamed. There was no clear parallel domestic programme at local level, and the impact of Urban was diluted.

The approach to domestic regional policy had changed significantly by the start of the 2000-06 period. Regional Development Agencies were created in 1999 in each of the nine English regions, to lead the development of regional economic strategies and coordinate the activities of other local and regional partners in the implementation of the strategies. The RDAs received significantly increased central funding in the years after they were established. The scope of RDA interests also expanded after their inception, having assumed the task of delivering the majority of English business support measures and taken on responsibilities in transport, tourism promotion, planning and housing. It was intended that the emerging strategies would guide the design of the 2000-06 ERDF programmes, so that effectively the latter should 'fit' inside the former. However, the timescale for the development of the first generation of RESs was very short, and the timing of the policy cycle for developing the RESs and the 2000-06 programmes was out of sync. The ERDF programme and the emerging RES instead were in some senses competing in the early days of the RDAs' operation.

For the 2007-13 programmes, the ERDF programme in North East England was developed to be closely aligned to the RES and the Single Programme, as well as BIS innovation and competitiveness resources. The narrower programme focus around business objectives enabled the RDA to integrate ERDF activity very closely with other RES activity. This level of strategic alignment was necessary to ensure the match funding from the Single Programme.

The abolition of the RDAs and the Single Programme funding stream has posed a major risk to the match funding of ERDF projects in the English regions. Current government initiatives do not have a strong regional policy focus, and those that do exist (e.g. the Regional Growth Fund) are not currently set up to in such a way to lend themselves to match funding ERDF. The House of Commons, Communities and Local Government Committee has been highly critical of government over this and points to risks over value for money and impact arising from the difficulties to obtain match funding (House of Commons 2012)

6. ASSESSMENT OF ACHIEVEMENTS AGAINST OBJECTIVES AND NEEDS (EFFECTIVENESS AND UTILITY)

6.1 Overall achievements of ERDF programmes measured against programme objectives (effectiveness)

The effectiveness of the programmes is the extent to which the objectives of those programmes were achieved through the projects funded. As such, the objectives can be split into two levels: the overarching programme objectives, often stated in terms of overall regional development; and the specific objectives or targets of individual measures. The former has usually been set in terms of aggregate regional indicators such as GDP and employment or narrowing gaps with the rest of the UK, whilst the latter was usually set in terms of narrowly defined indicators relating to the outputs rather than the changes resulting from the intervention. As a consequence in assessing effectiveness it is necessary to reconstruct the logic of how measures contribute to the overall objectives and how the achievements of projects and measures fit with the regional performance indicators used to define the programme objectives.

An important question to pose at the programme level is whether the objectives were achievable given the resources available? Typically, the objectives set for the North East programmes as a whole were very optimistic, with a hope that the Structural Funds could transform the North East economy and make a significant contribution to narrowing the gap with the rest of the UK. Early programmes were less specific, with overall objectives set more in terms of contributing to economic transformation, stimulating growth, or even focusing the impact of the programme in particular areas. The 1994-96 programme had a long term goal 'to create an increasingly self-reliant and diverse economic base so as to improve the prosperity and quality of life of the North East and to assist access to social and environmental benefits and to new economic opportunities throughout the region. More recently, though, the programmes had more specific objectives such as in 2000 where the programme sought to create a substantial volume of new jobs, and set a target of 33,308 new jobs, and to improve the performance of SMEs, with a target net additional turnover of €1228m. The current programme also combines a 'motherhood statement' about making the region a more cohesive, ambitious and attractive place with a modern, innovation focused, economy, with more specific targets in terms of approaching 90% of UK GVA per capita and the creation of 3,000 new businesses and 28,500 gross jobs among others.

These overarching objectives would always be hard to reach, although some of the more specific targets have been reported as being achieved, although, it must be stressed, in a time of general economic growth. It would always be questionable though whether the programmes were big enough to achieve a significant shift in the level of GVA. Currently, the programme is spending less than 0.2% of GVA which it is difficult to believe can produce a significant relative shift in GVA when the region's natural tendency is to lag the national growth rate. The evidence in terms of regional indicators is that the region managed to keep up with the national growth rate during the 2000s, but would have had to perform spectacularly well to close the gap to 90% of UK GVA levels, from a current level of below 80%.

Table 8 illustrates the achievements against these targets for the programmes from 1994 onwards, showing that the 1990s programmes failed to reach their targets even in terms of reported achievements, although for many projects the real impact would have been over a longer time period than that reported. The 2000-06 programme reported that it had achieved its targets in a period when the UK economy was performing well and the national government had a strong positive regional policy with considerable resources through the regional development agencies. The current programme is still underway but initial reports indicate it will struggle to achieve its employment targets, although it is on track for its new firms target. However, the overall objective of narrowing the GVA gap with the rest of the UK looks to be completely out of reach given the evolution of the financial crisis in the UK.

Specific measure-level targets have been met reasonably well, although the performance was generally patchy and some of the measures experienced difficulty with setting appropriate targets and measuring outputs. Infrastructure has generally been delivered effectively and at high quality and for the main part has been well used. Some of the larger physical projects have included critical infrastructure and major industrial sites which are in full operation. The region has also built a strong reputation in the delivery of iconic cultural projects which have been highly successful. Overall the quality of infrastructure has improved over time, although this has meant at some times that targets for total area developed have been missed as higher quality, higher cost, projects have been brought forward. During the 1990s in particular the infrastructure projects often missed their jobs targets as these were set for the number of jobs housed once the sites were complete and occupied, and projects were still not at the point of occupation when the final reports were submitted, but these long term investments will continue to pay off into the future.

Table 8: Programme objectives and targets for North East ERDF programmes 1994-2013 and reported achievements

Programme	Aggregate objectives/targets	Reported achievements
1994-96	41,900 gross new jobs created 2000 new businesses Stop decline in GDP relative to UK	14,633 gross new jobs created 1875 new businesses GDP/GVA continued to decline relative to UK until 2000
1997-99	55,674 gross additional jobs 21,215 net additional jobs	25,395 gross additional jobs 13,267 net additional jobs
2000-06	33,308 net new jobs €1228m net additional turnover	45,000 gross new jobs, 63,000 safeguarded 35,000 net new jobs, 48,000 safeguarded c€2000m net additional turnover, c€1500 turnover safeguarded
2007-13	GVA to approach 90% of UK level 3000 new businesses 10185 gross new jobs 18,281 gross jobs safeguarded	GVA was around 79% of UK level in 2009 1389 new businesses (end 2010) 2489 gross new jobs (end 2010) 1793 gross jobs safeguarded (end 2010)

Source: summarised by authors from programme reports

There is more uncertainty about the achievements of business support measures where substantial amounts of grant have gone to business intermediaries. Whilst these have reported hitting targets for numbers of businesses assisted, for the early part of the period there was a tendency towards low levels of support being spread across a high number of SMEs with a likelihood of negligible impact on each. Whilst later programmes placed more emphasis on intensive support for smaller numbers of firms, the level of success of such support has varied between providers and the legacy of this support is difficult to identify. Overall, advice to business has not justified its expectations and despite some elements of success has not matched up to its objectives. More recent focus on financial support through loans and venture capital appears to be more successful, although as the effects are long term it is difficult at this point to assess the success of the current Jeremie fund. The timing has been particularly important though in filling funding gaps created by the current financial crisis.

A key element has been support for enterprise and the region has experienced some success in building a more supportive environment for entrepreneurs, with successful incubators and with some good results in terms of numbers of new firms assisted. The overall rate of start-ups in the region did improve during the 2000s, although still lagging behind the UK level, although it appears to have been hit by the current financial crisis also. The scale of the problem has been large compared with the scale of intervention, so there has been a discrepancy between the targets of enterprise measures and the firm creation objectives of the programme as a whole, but the evidence is that positive steps have been taken.

Support for innovation has also experienced some success and has met the implicit objectives of creating the foundation for a regional innovation system. The earlier programmes set objectives in terms of direct assistance to business which were largely met, although projects varied in their success. An implicit objective was to persuade the universities to collaborate more in their regional engagement and to increase their focus on local business and enterprise. In this the programmes were very successful through most of the period, and regional engagement by the universities in the North East was regarded as best practice within the UK. More recently though there has been a reduction in collaboration between the universities, and a withdrawal from some regional engagement projects due to perceived risks associated with ERDF and the removal of a regional strategic imperative within the region with the loss of the RDA. The 2000s also saw considerable investment by the RDA in building new centres of excellence with ERDF support. The successful development of centres such as NAREC and the Centre for Process Industries, as now nationally-supported centres, has been an important part of the underlying vision of the innovation measures. These activities have been identified as smart specialisation exemplars, linking support for innovation with sectoral development.

Community economic development has been the other main activity supported over the years, although largely absent from the current programme. Here the results have been less impressive and the measures have repeatedly failed to achieve their objectives, at least measured by quantitative targets. The region has focused on small scale community projects, with a diversity of activities that often did not contribute towards job creation, so these measures often failed to reach employment targets. A key problem of these measures is a lack of focus and prioritisation as the desire to ensure widespread engagement with disadvantaged communities has led to locally driven projects that might have met local immediate needs but have been less effective in building longer term benefits. The small scale of projects has often inhibited sustainability and impact as their ability to influence change has been limited. Performance has also varied between local authority areas with some local authorities retaining funds to pay for in-house community development whilst others have taken more of a commissioning role and pushed new funds out to third sector and social enterprise partners.

An overview of the relationship of achievements to objectives is provided as Table 9 below. This illustrates the extent to which in particular thematic axes the achievements have been above or below what might be expected given the level of effort and investment. Overall, there are few thematic axes across the programmes where achievements have exceeded expectations. In summary then the programmes have made some progress towards meeting their objectives, although not the higher level ambitious objectives which were always beyond reach. However whilst there is a consensus that the region has been transformed, the region remains fragile and vulnerable when faced with external shocks such as the global financial crisis, and as a result has been one of the hardest hit regions in the UK since 2008.

Table 9: Achievements compared with imputed objectives for eight thematic axes

	1989-93		1994-99		2000-06		2007-13	
Thematic axis	**Imputed objectives**	**Achieve-ments**	**Imputed objectives**	**Achieve-ments**	**Imputed objectives**	**Achieve-ments**	**Imputed objectives**	**Achieve-ments**
Enterprise	-	2	=	2	+	3	++	4
Structural adjustment	-	2	++	3	+	3	=	3
Innovation	-	2	=	3	=	4	++	4
Environmental sustainability	-	2	-	2	-	3	-	3
Labour market	=	2	=	3	=	2	--	2
Social cohesions	--	1	=	3	=	3	--	2
Spatial cohesion	--	2	--	2	--	1	--	1
Infrastructure	++	4	++	3	+	3	-	3

Imputed Objectives
++ Very high effort, this axis is a central aspect of the regional development strategy
+ High effort, this axis is an important element in the regional development strategies
= Average effort, this axis is included in the regional development strategy but not particularly important
- Low effort: this axis is only marginally considered in the regional development strategy
-- No effort at all on this axis

Achievements scale (end of period with respect to beginning of period)
5 Very high achievement, the results for this axis are much above expectations given the effort put in it and ex-ante conditions
4 High achievement, the results for this axis are above expectations given the effort put in it and ex-ante conditions
3 Average achievement, the results for this axis are those which could be expected given the effort put in it and ex-ante conditions
2 Negative achievement, the results for this axis are below expectations given the effort put in it and ex-ante conditions
1 Very negative achievement, the results for this axis are considerably below expectations or even nil

6.2 Overall contribution of ERDF programmes to regional development (utility)

At the outset, the region did have, and still does to some degree, some of the most severe problems of any UK region, with need for regeneration, and significant improvement in skills, entrepreneurship, innovation and a shift to a higher value added employment base. Associated with this has been severe social problems arising from unemployment, low incomes and the industrial legacy. The scale of the problem has been significantly greater than the resources available to deal with them, so prioritisation has been needed and as a result the ERDF programmes have made a contribution to regional development even if the impact has been variable. It has already been noted though that as a proportion of regional GDP the programmes have never contributed above 1%, so the scale of contribution must be put into that perspective.

The contribution to overall regional development as measured by gross value added has not been highly visible, although it may be argued that the halting of the downward drift relative to the rest of the UK during the 2000s has been partly due to the effects of the programmes. ERDF was however just one part of a package of funding for the region during the 2000s in which the regional development agency was the other major part. The effective combination of these funding streams does seem to have helped to stop the increasing divergence within the UK, although without achieving convergence.

The programmes also helped to boost employment within the region with strong job creation again in the 2000s. The reported achievements in the 1990s may understate the true contribution of the ERDF programmes to employment as the timescales for assessment were short due to the programmes being for only three years. Many of the projects at this time were incomplete at the time of the final reports and therefore the employment impacts were delayed and not counted. It is therefore additionally difficult to assess the employment impact as the long-term achievements were never measured.

The early focus on infrastructure can be seen as necessary but not sufficient for development. The region had significant physical problems of dereliction arising in part from the restructuring of the early 1980s (and this has continued) as well as a longer history of industrial decline, with extensive key inner urban sites laid derelict and contaminated. The restoration of these sites for business use was a priority, and especially converting formerly heavy industrial sites for growing office use. The negative image of these large areas of dereliction also inhibited investment, and there was no operational market for industrial premises in the region. So this was an essential role for the ERDF and much of the worst problems have been addressed now, and some of these former derelict sites are some of the most attractive new business locations in the region. As noted in Chapter 2, the level of derelict land in the region has fallen over the 20 years from being 14.6% of all derelict land in England to only 7.9% in 2007.

It has been argued by some interviewees, that the switch away from physical regeneration was perhaps too early for the south of the region, although perhaps appropriate on Tyneside. Whilst developments on Tyneside had reached the point where normal commercial property markets were starting to operate and many of the most strategic sites had been developed, on Teesside the scale of the derelict land was greater and the demand weaker. Urban renaissance is more difficult in the south of the region where the original urban fabric was of a lower quality, and the task of regeneration is uncompleted.

Some of the early transport infrastructure was also necessary to address both the peripherality of the region within the UK, and the weakness of internal links within the region. The enhancement of Newcastle Airport (although only modestly supported) and the expansion of the Tyne and Wear Metro were particularly important for the North of the region. Elsewhere strategic improvements to the local road network have helped to better connect the region and ensure good road access to industrial sites. Such investments were typically of the necessary but not sufficient character and it would be difficult to attribute any major impacts on the region in wider economic terms.

A central part of the regional problem has been the legacy of long term sectoral shifts, with the decline of traditional industries and a reduced scale of newly emerging sectors. Some of the initial targets for sectoral development proved to be illusory, particularly in the case of electronics, although greater success was seen in sectors such as tourism and culture where employment has increased. One NorthEast reported that by 2007 the tourism sector directly employed 60,775 people which was an increase in 14.5% over the period of 2003-2007. The number of overnight visitors had also increased by around one million over the same period, an increase of 12%. Since 2008 these figures have fallen again as tourism has declined nationally.

Some of the large cultural projects have had benefits beyond their narrow targets and have contributed to a wider regional development process. Certain benefits have been community-oriented in that a characteristic feature has been to work with local community groups in promoting participation in art and raising self-esteem. Thus, the Sage music centre has educational programmes reaching tens of thousands of people, most of the cultural projects work with schools from disadvantaged communities, and all have brought in new audiences for art and culture. This has enhanced the confidence of those individuals and the wider communities that they and the region have something of value. In addition, by changing the external image of the region to one much more positive it has made it easier to attract people to the region, not least in the form of mobile elite professionals.

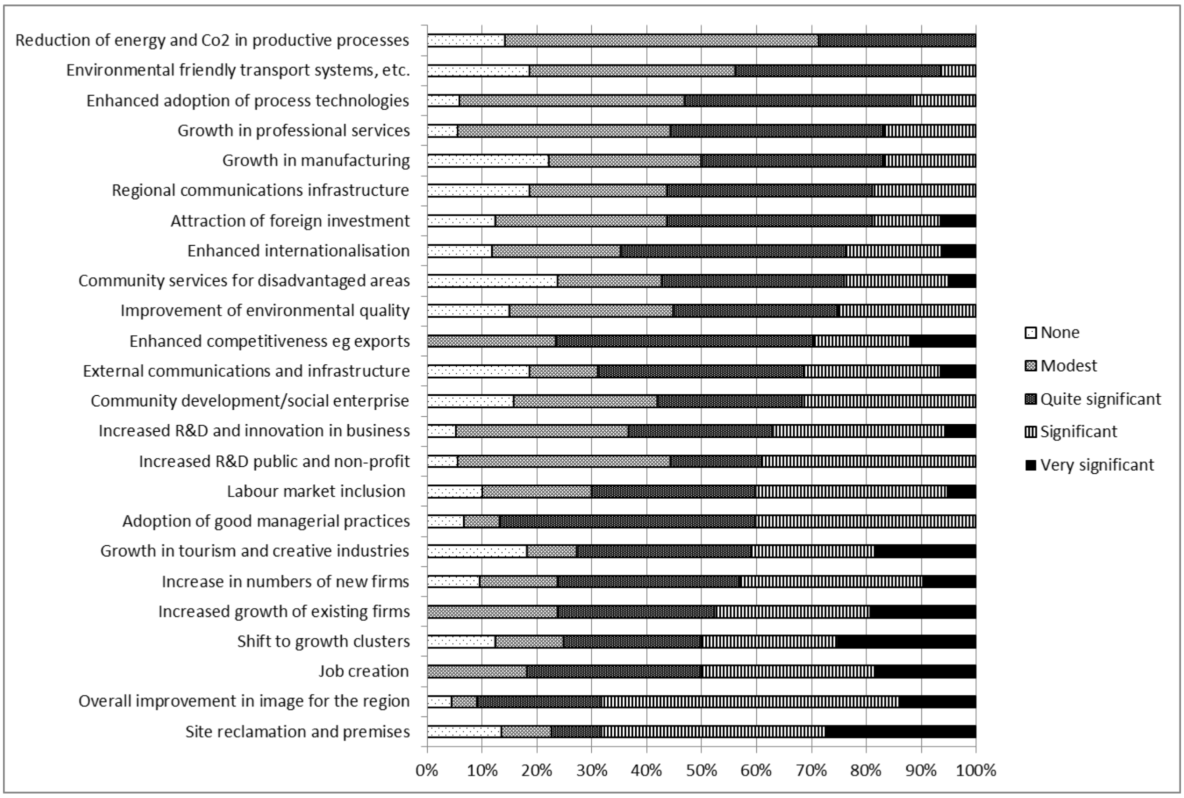
The most significant achievement has been the growing focus on building a suitable environment in the region for innovation and enterprise. This has developed from the initial focus on large-scale employment generation in major foreign direct investment, in a period when there were a large number of potential projects, coupled with supply chain initiatives. The recognition that FDI was becoming more limited and that jobs were being lost in that sector as firms switched to Eastern Europe stimulated a shift towards indigenous development, encouraged also by the Commission. What emerged was a systemic approach to developing and supporting SMEs, and encouraging innovation, a development which many commentators had been urging for many years.

The rate of change of entrepreneurship in the region has been slow and the region continues to lag other parts of the country in numbers of new ventures, but the number of SMEs has increased slightly and there is a slow change in entrepreneurial culture. Entrepreneurship theory suggests however that regional rates of entrepreneurship change only very slowly over a period of decades, and it is perhaps premature to expect a transformation over this period.

Similarly with innovation, whilst there is some evidence of an improvement in terms of developments around the new centres of excellence and a growth in new high tech firms, the scale of the differential with the leading innovative regions in Europe is large and is unlikely to be closed quickly without very large innovative firms. As yet most of the new firms remain small and in many cases are in sectors where innovation is not easily translated into high R&D figures. So whilst regional R&D has increased modestly during the 2000s there remains considerable scope for improvement.

Regional stakeholders were asked about their opinion on where the ERDF programmes had made a contribution to the region, giving a rating of the significance of a range of possible achievements (Figure 13). The strongest responses were focused around site reclamation and image improvement, job creation and firm growth, the shift towards growth clusters and particularly tourism, and innovation. The weakest contributions were particularly around environmental issues such as CO2 reduction and sustainable transport. Some areas of achievement were given quite polarised ratings, such as community development and community services where there was a strong negative rating alongside some strongly positive views, and even some of the highly rated achievements such as site reclamation and tourism had some responses saying there were no achievements.

Figure 13: Assessment of the extent to which the ERDF programmes delivered achievements in various fields across the study period (ranked by level of significance)



Source: online survey of regional stakeholders

The Structural Funds programmes provided a 'vision of the future' and a 'welcome third party view' of what the next development phase for the North East would be as the region's position improved. Moving into the current period, the combination of the narrowing of the programme and pressure imposed by the Structural Funds Regulations, combined with the reduced levels of funding is 'useful, even if it is not palatable to local partners'. There was a degree of regional consensus on the current, quite tightly defined, economic development priorities, building on the domestic Single Programme providing funding for regeneration projects.

Overall, in summarising the achievements compared with needs, there has been an increasing achievement in the areas of enterprise and innovation in what have been continuous needs throughout the period. Infrastructure was an important need at the beginning but has become less significant and achievements have been scaled back accordingly. Labour market and social cohesion needs have been consistently important throughout the period but have not been a major target of the ERDF and achievements have been modest at best. Spatial cohesion is perhaps one area where needs have increased as some areas have seen growth whilst others fell behind, yet achievements have become negative as the programmes themselves have helped to drive the growth of spatial inequalities (Table 10).

Table 10: Needs compared with achievements for eight thematic axes

	1989-93		1994-99		2000-06		2007-13	
Thematic axis	**Needs**	**Achieve-ments**	**Needs**	**Achieve-ments**	**Needs**	**Achieve-ments**	**Needs**	**Achieve-ments**
Enterprise	++	2	++	2	++	3	++	4
Structural adjustment	+	2	+	3	+	3	+	3
Innovation	++	2	++	3	++	4	++	4
Environmental sustainability	=	2	=	2	=	3	=	3
Labour market	++	2	++	3	++	2	++	2
Social cohesions	++	1	++	3	++	3	++	2
Spatial cohesion	=	2	=	2	=	1	+	1
Infrastructure	++	4	++	3	+	3	=	3

Needs Scale (evaluation of the region at the start of the period)
++ Very high need: the region is highly deprived on this axis
+ High need: the region is somewhat deprived on this axis
= Average need: the region is around the national mean on this axis
- Low need: the region is above the national mean on this axis
-- Very low need: the region is already a European front-runner on this axis

Achievements scale (end of period with respect to beginning of period)
5 Very high achievement, the results for this axis are much above expectations given the effort put in it and ex-ante conditions
4 High achievement, the results for this axis are above expectations given the effort put in it and ex-ante conditions
3 Average achievement, the results for this axis are those which could be expected given the effort put in it and ex-ante conditions
2 Negative achievement, the results for this axis are below expectations given the effort put in it and ex-ante conditions
1 Very negative achievement, the results for this axis are considerably below expectations or even nil

In summary, the programmes have undoubtedly made a contribution to the process of regional development and to meeting some of the region's developmental needs. The one area where the programmes had a transformative effect was in the cultural renaissance where the effects on regional image have been substantial. It is possible that some of the current emphasis on enterprise and innovation could build to provide the base for a successful smart specialisation strategy, but in the absence of the RDA providing a forum for identifying regional priorities, the momentum is likely to be lost.

6.3 Key elements of success and failure

This section provides a judgement on what was good and bad about the programmes, building on the previous analysis, however stakeholders in the region were asked their views on aspects of good practice in terms of their agreement with a number of statements (Figure 14). In this we see a generally positive view about selection criteria and programme strategies, the concentration and allocation of funding and implementation. There was also a reasonably positive view of the involvement of partners in implementation. So we can conclude that stakeholders were happy with the strategies and the ways in which funding was allocated to projects.

There was less satisfaction though with programme flexibility to changing needs and the integration of programmes with other EU and domestic policies. The use of evaluation evidence prompted quite mixed responses with both strong positive and strongly negative responses

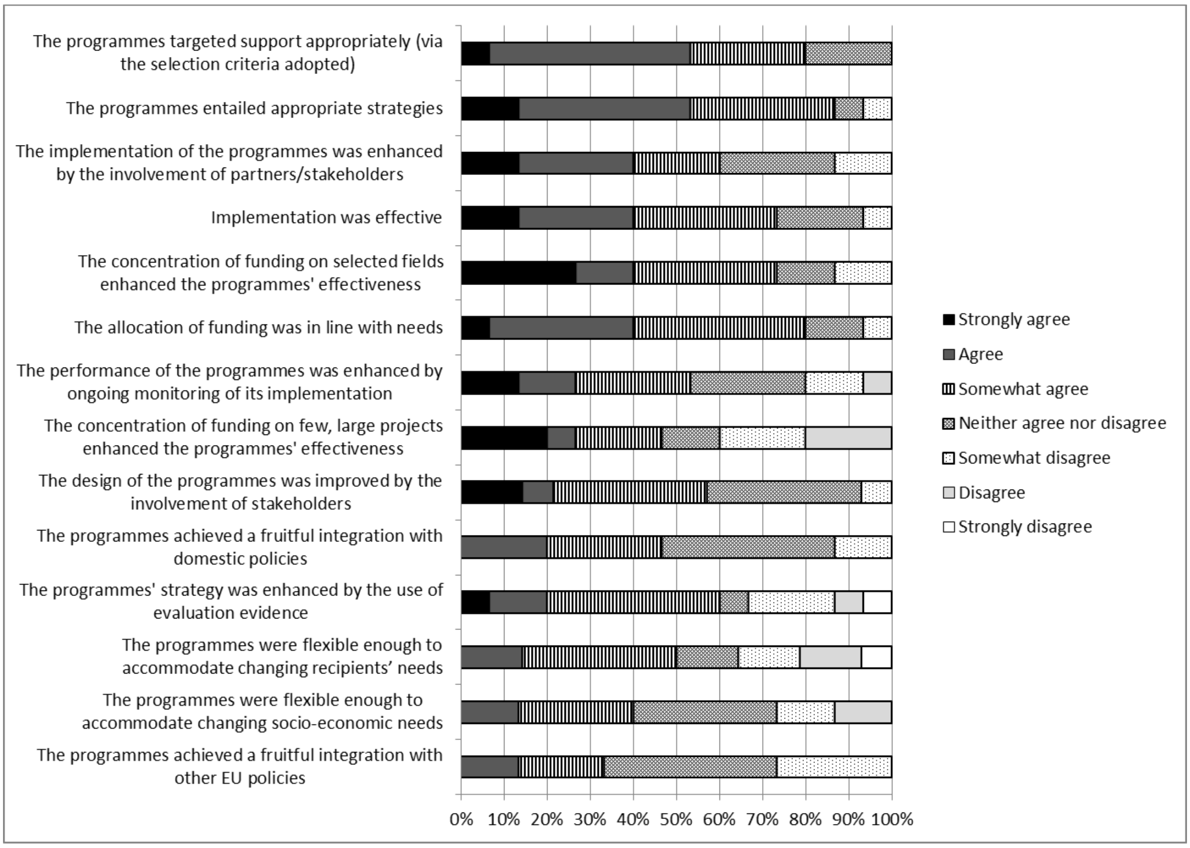
6.3.1 Good practices and successes

The region has achieved considerable learning about what works in regional development and has been able to build processes to develop and embed that learning into the programmes. As already noted, there has been a steady evolution over subsequent programmes with a growing emphasis on regional strategic projects, and an increasing quality of project. A strong learning trajectory has been most identifiable in selected measures, such as finance, innovation, and culture.

To some degree there has been a willingness to invest in strategy building inside and outside the programme. At the outset this was limited to the programme itself, although some partners at that time did commission research into the region's needs. Initiatives such as the RITS exercise, the Competitiveness Project, a regional futures exercise called SHiNE which informed the RES, and a 'What works in regional economic development study' for ONE all helped to develop thinking on strategies, and in some cases drew upon external and international experiences. There is some internal criticism in the region about an unwillingness to learn from outside if it means partners should abandon favourite projects but this perhaps relates more to the 1990s than the present.

In developing the 2000-06 programme, there were problems experienced with both consultation fatigue and strategy overload – for example, programme developers counted c.173 different strategies in the region. However, the production of the RES was seen as a big step forward: for the first time in the English regions, there was a regional strategy to which every player/sector signed up.

Figure 14: Assessment of the extent to which regional stakeholders agreed with statements about the management of the ERDF programmes (ranked by level of agreement)



Source: online survey of regional stakeholders

Projects in particular areas have been very successful:

- The large scale cultural projects such as the Sage Gateshead and Baltic gallery have set national standards of excellence and have attracted in tourists and changed the image of the region. They have contributed to mainstream results in the form of employment creation within the cultural sector and tourism, but also had wider impacts on the external awareness and perception of the region which might have longer term benefits. These projects have also been path-breakers in integrating community engagement with elite culture, with consequences for local confidence. The Angel of the North showed how a piece of public art can have a dramatic effect on a region's image and be a very cost effective form of promotion. The level of ERDF investment varied depending on the availability of Millennium funding, with relatively small contributions in some cases such as the Sage Gateshead, although with a higher contribution in the case of the Angel of the North and the Alnwick Garden.
- The region has been a leader within the UK and even internationally in the involvement of universities collectively in support of industry, notably with the Knowledge House project which provided technical assistance to a large number of SMEs and was pathbreaking in fostering inter-university collaboration, but also with a sophisticated mix of projects across a wide range of policy domains. This excellence has been recognised by OECD through a peer review project. In most university projects ERDF has contributed close to 50% of costs,

although during the 2000s considerable additional funds were drawn in from the Higher Education Funding Council for England.

- Support for entrepreneurship and incubation has also been highly successful, with numerous successful incubator premises and programmes to support start-up firms, albeit on a scale which was insufficient to make a major change to the region's long-term underperformance in entrepreneurship. As with the university projects this area of activity has generally been supported with a high intervention rate of close to 50%.
- Recent support by One North East for knowledge based sectors through centres of excellence has worked well at least in establishing, within the region, new national centres of excellence for the energy and process industries. These centres are both supporting the development of new technologies in local firms as well as developing technologies in house for commercialisation. The strategy supporting these centres has provided an exemplar of smart specialisation in action.

6.3.2 Bad practices and failings

The region has also experienced a number of problems and examples of poor practice, although in some cases this is due to the wider operation of the Structural Funds in the UK. In particular, recent problems are a consequence of the abolition of the RDA by central government, at a time when the programme was almost completely dependent on the RDA for direction and matching funding.

The changing EU regulatory framework has also led to difficulties. Over time the audit burden has increased, and has become very inflexible making it difficult for projects to modify their approach in the face of regional changes without risking missing their targets and clawback. Mid-programme changes to eligible overheads caused significant problems for some universities, and has created a widespread perception that ERDF funding is high risk, and hence unattractive. A number of interviewees suggested that they were refusing to bid for ERDF funding as a consequence, or at least scaling back their involvement.

There was a concern that the application of project size thresholds had cut out some partners and had in some cases led to inflation whereby costs were increased above the threshold without appropriate increase in outputs.

The narrowing of the programme in the most recent period has probably reduced the amount of assistance to the poorest communities as the programme was focused on growth opportunities in the urban areas, and even has an inbuilt bias towards Tyneside rather than Teesside.

There appear to be some conflicts between an entrepreneurial approach in delivering policies such as equity finance and wider regional development objectives. In part this leads to greater focus on the growing parts of the region, but also there is an emphasis on efficient management of the funds by private sector organisations which see their aims in terms of return on investment even if this is less attractive for the region (such as selling growing firms at a profit to foreign companies that might close them down).

7. CONCLUSIONS

This section provides the overall conclusions of the case study organised by the evaluation questions posed in the original call to tender.

7.1 EQ1: To what extent did the programmes address regional needs and problems over time?

EQ1a: What were the initial regional needs and problems and what has been their evolution?

Throughout the period covered by this study, the North East of England has been one of the poorest performing regions in the UK, if not the poorest on some indicators. The nature of the region's problems are complex, multiple and integrated. At the heart of the problem has been insufficient jobs and low productivity, leading to low GDP, but this has been caused by the legacy of past sectoral development and decline, a heritage of employment in large-scale manufacturing and primary industries, low levels of entrepreneurship and low levels of innovation. Industrial restructuring created territorial challenges in abandoned sites and communities, but also communities without the high level human capital needed for success in the knowledge economy. Just explaining the low level of entrepreneurship points to multiple weaknesses such as weak local markets, low levels of managerial skills in the region, low levels of local purchasing from larger firms, low levels of family capital, poor access to venture capital, a weak entrepreneurial culture and weak local business services.

Over the 1989-2012 period, there was initially a continued weakness of the region with a reduction in competitiveness relative to the rest of the UK, as seen in a falling level of relative gross value added through the 1990s. However, the early 2000s were a period of moderate convergence with the halting of the decline in relative GVA, growth in employment and numbers of SMEs and an improvement in other indicators such as R&D. The essential problems of the region remain largely unchanged, and the current financial crisis has shown the region's lack of resilience, but with some modest improvements in enterprise and innovation. The biggest change in the region has been the reduction in derelict land and the renaissance of some of the urban cores, particularly on Tyneside.

EQ1b: What was the strategy of ERDF programmes of each programming period? What has been their evolution?

In designing programmes to address these multiple problems it is easy on the one hand to do almost anything that will make some improvements, but also very hard to design a programme that will make transformational impacts. The region also started with a weak institutional base, lacking a regional strategic body focused on economic development, although this was established during the study period. So at the outset in 1989 the regional partners designed a programme that recognised the region's problems and needs, but which was unable to focus on all of the issues that needed to be tackled. This initial programme as a result focused on one major issue, infrastructure, which was a key part of the problem, but this decision was mainly driven by inexperience, national government restrictions, and a desire to channel funding to local authorities.

From 1994, the scope of the programmes was much greater and funding was directed to multiple needs, and through a wider set of public and private agencies. On the one hand, there was a problem of trying to do too many things at once, exacerbated by weak prioritisation, which meant resources were to be spread thinly with implications for effectiveness. On the other hand, there was a dominant model of development in the region which was focused on the attraction and embedding of mobile investment, attempting to create jobs in the sort-term whilst also raising productivity and shifting to new growth sectors. This had some successes, but during the late 1990s the region continued to lag national growth rates, and the mobile investment flow began to dry up.

As a consequence, the programmes in the 2000s have become increasingly focused on longer term development through entrepreneurship and innovation. These are clearly some of the most important challenges faced by the region and central to economic development and the choices made within the region by the regional development agency as to the region's strategy. Inevitably though some of the region's needs have to be neglected. By focusing on enterprise and innovation to ensure critical mass in funding in these areas, the 2007-13 programme had to withdraw from general physical and community regeneration. There was some debate about this within the region at the time and still a feeling that the solution was appropriate for Tyneside where substantial regeneration had already occurred, but not for the Tees Valley where considerable regeneration challenges remain. The consequence of internal regional disparities in problem and opportunity has been that as previous programmes have had greater impacts in the areas of opportunity there has been some divergence of experience and the dilemmas between investment opportunities and areas of market failure have been exacerbated. Overall the programmes have improved in their relevance and prioritisation in order to give greater chance of impact, but the scale of the problem in the weaker areas is such that their needs are not being fully addressed.

EQ1c: What were the priorities and objectives of ERDF programmes of each programming period? What has been their evolution? Were the objectives SMART?

The priorities and objectives have been examined in some detail in Chapters 3 and 4, illustrating the shift from infrastructure measures and related physical objectives to a set of objectives focused on enterprise. It is clear that the programmes in the period prior to 2000 were largely driven by the desire to identify measures as means for drawing down the funds, around which a programme could be assembled, whereas from 2000 onwards the programmes have been driven largely by the objectives of change in the entrepreneurial base of the region, with measures being identified to fit the objectives. In this sense the evolution of programmes has been very positive in better addressing the long term underlying problems of the region rather than just the short term immediate challenges of underinvestment in infrastructure, derelict land and insufficient jobs. A paradigm shift has occurred in the region with the recognition that problems cannot be solved simply by attracting in a number of foreign direct employers, but that a change in the whole enterprise culture of the region is necessary.

The extent to which the objectives were SMART has varied to over the period, again with improvement over time, although weaknesses remain in the attainability of some of the objectives

- Objectives have become more **specific** over time, especially when examined at the measure level, although some of the programme objectives remained vague in seeking to build a stronger and more resilient region.
- Considerable effort has been put into making the programmes achievements **measurable** in terms of the numbers of new firms, new jobs and change in regional GVA. This system cascades down to the measure level where quite detailed indicators have been developed

to assess what has been delivered by the programmes and what changes are being induced. There remain some problems with measuring some of the softer cultural changes that are necessary in rebuilding an entrepreneurial environment, but the overall objectives of increasing the numbers of SMEs are easily measured.

- A more general problem with some of the programme objectives has been whether they are **attainable** and it can be argued that some of the programme documentation has been unduly optimistic. Thus in 2000-06 there was an expectation that the region could narrow the GVA gap with the rest of the UK from less than 80% of the national rate to nearer 90%. Even under what were quite positive conditions there was little real progress on this with the main impact being to stop the downward slide. At the level of specific measures also there seems to be a problem with the attainability of targets where targets have been identified based on some previous benchmarks whilst the nature of projects coming forward have had very different characteristics than the benchmarks, leading to considerable under-achievement of what were therefore unattainable targets.
- Broadly the objectives of the programmes have been **relevant**, and as already noted increasingly so over time. The engagement in the programmes has helped the region to develop a clearer sense of its long term problems and hence to better focus its interventions on the real long term problems.
- The objectives of the programmes have largely been **timely** in terms of addressing needs that are immediate. However, the timescale of objectives and their targets has been problematic, notably in the 1990s when relatively short programmes had difficulties in delivering completed projects and measureable achievements within the timescale of the final report.

EQ1d: What has ERDF support been spent on in each programming period? Have there been significant transfers from initial allocations of ERDF resources to other priorities in any period?

There have been significant shifts from one programme to the next in the kinds of projects which have received ERDF support, as demonstrated in figure 11 in Section 4.2. The major shift has been from infrastructure projects to innovation and enterprise projects over time, with the waxing and waning of other areas of spend such as community economic development during the late 1990s and early 2000s. Such changes have only occurred between programmes though and within individual programmes expenditure has mainly been delivered as originally planned. There have been no significant internal transfers within programmes between priorities.

7.2 EQ2: To what extent do ERDF achievements meet regional objectives and needs in each programming period and across all periods?

The programmes have experienced mixed results in terms of their effectiveness in achieving their objectives. At a programme level transformational objectives were set in terms of significant changes in GVA and employment which were unlikely to be achieved by the level of investment from the programmes, given the weaknesses of the region and the levels of investment also going into other regions. So whilst GVA grew, the region was unable to make much progress in closing the gap with the rest of the UK as the other regions were also experiencing growth, usually on the basis of stronger market opportunities. The main problem therefore was with unrealistic expectations.

At a measure level in general there was a mixed performance in meeting targets. Infrastructure was well delivered although the results in terms of changes in use, jobs housed etc often lagged behind the assessment in programme final reports. These investments are delivering achievements beyond their immediate programmes. The region has also had good results in the development of major cultural projects which have met their immediate targets and contributed to a wider process of culture-led regeneration.

On business support the results are less convincing with problems of some projects delivering very low levels of support to large numbers of firms and hence being ineffective. More recently, more focus has been achieved but questions remain as to the level of impact of interventions on the firms. Support for start-ups has been more successful although again mixed. Start-up rates did increase in the region in the 2000s up until the financial crisis, and it seems with the provision of venture finance the region was able to build a much more supportive environment for new businesses.

Innovation has also been an area of some success with good progress in meeting implicit objectives to encourage greater engagement by the universities in the region and in collaboration with each other.

Community economic development was a less successful strand of the programmes though and usually failed to meet its objectives in terms of employment creation in the most disadvantaged areas, although there have been wider benefits to the communities involved. Achievements have been limited by the small scale and large number of projects.

EQ2a: What are the reported achievements of each programming period?

The preceding report has examined the reported achievements in detail. In the 1989-93 programme achievements were not reported in any detail and emphasis was only placed on the physical delivery of projects. The 1994-96 programme by contrast had detailed indicators relating to physical outputs and expected results in terms of jobs created. However it had great difficulty in meeting targets, both at an aggregate level where it only reached 14,633 jobs against a target of 41,900, but also within specific measures where the costs for the delivery of infrastructure projects were higher than anticipated resulting in underachievement of targets. The 1997-99 programme had similar problems to the previous one, underachieving in jobs created with only 13,267 net new jobs against an SPD target of 21,215. Again many measures failed to reach output targets.

The 2000-06 programme was more successful, helping to create 35,000 net new jobs and adding around €2 bn turnover to local SMEs although this was clearly short of the shift in regional GVA also proposed for this programme. This programme has probably been the best in terms of achievements with good integration between the ERDF and other national and regional policy. Most recently the 2007-13 programme seems to have been successful in terms of numbers of new businesses but is struggling with job creation given the extremely adverse conditions of the global financial crisis and austerity budgets in the UK.

EQ2b: To what extent were objectives achieved in each programme period?

The region found it difficult to meet the overall objectives of programmes, at least in the 1990s due to the overambitious targets set, problems which were replicated to some extent in sub-programmes, however the 2000-06 programme saw a much improved performance. Overall the performance against objectives was mixed. The first programmes of 1989-93 was probably quite successful in meeting its limited objectives in terms of outputs as most of the projects were already anticipated when the programme was designed although data were not available. The programmes of 1994-96 and 1997-99 struggled with ambitious targets and short timescales, with many sub-programmes failing to reach objectives, especially on the jobs housed in new industrial premises – some of these targets may have been reached after the closure of the programmes. The growing emphasis on business support activities and community development made it more difficult to anticipate results and then to ensure they were achieved.

Effectiveness improved in 2000-06 with the programme reaching its aggregate targets, although it still had varied performance at the level of sub-programmes. In some cases the nature of the projects delivered deviated from what had been proposed, and targets were missed (for example, where projects delivered higher build quality and hence higher unit costs than the metrics used in the planning phase). Some changes in direction led to large projects delivering different kinds of outputs and benefits than had been anticipated, again leading to underperformance against original objectives.

EQ2c: To what extent were needs met in each programming period? To what extent can observed changes in regional needs and problems be imputed to ERDF programmes over time?

The regional needs across all of the programming periods were to some degree met by the objectives of the programmes, although how those needs were described in terms of developmental strategy varied over time and with different degrees of focus. Thus, whilst in all periods the region's needs were at least partly met, strategic choices affected the *degree* to which particular needs were met. Arguably the region's real needs are still best summarised as a shortage of jobs and insufficient high value added economic activity, and whilst programmes have made a contribution towards these needs, it can be argued that the results are less impressive than the region would have liked to see.

In the 1989-93 period the programme particularly addressed needs in infrastructure and derelict land, and made a good contribution to resolving those problems, but had limited effects on other long term problems in the region. The subsequent 1994-96 and 1997-99 programmes continued with some of this activity and also tried to influence regional performance in job creation and enterprise, but with limited effects on such problem areas in the short term. It may be argued that the effects of these programmes were really only experienced in the 2000s.

Certainly it was not until the 2000-06 period that there was a clear improvement in the region's performance, although more in the form of preventing the gap widening with the rest of the UK rather than enabling convergence. Performance of the region in terms of GVA, employment, innovation and enterprise all improved in this period, probably as a result of the combined investment from 1990s programmes, new business support measures in the 2000-06 programme, and a significant increase in domestic regional policy. Since 2008 the region has once again been stagnant and performance has lagged behind national averages, in as much as the data are available.

EQ2d: What have been the complementarities and synergies of ERDF interventions with ESF; EAGGF/EAFRD; and with domestic regional policy interventions?

During the late 1990s and more particularly the 2000-06 programme there was a strong ESF component in the regional programmes with clear synergies between the ERDF and ESF elements. So whilst ERDF funded infrastructure developments and business support the ESF funded related employment and training activities. One particular area of synergy was the development of packages of projects targeting particular communities and integrating ERDF and ESF measures. Since 2007, though, the ESF has been removed from the regional programme and there seems to have been little connection between the regional ERDF and national ESF programmes.

Complementarity with domestic regional policy has been strong throughout the period with the ERDF providing additional resources to domestic programmes in the region. This can be seen for example in a series of urban based initiatives such as Single Regeneration Budget and Urban Development Corporations. In the area of business support the ERDF provided considerable additional resources for the national Business Link programme in the region. With the formation of the regional development agencies and the Single Programme there was a significant fund available in the region which could be used to match fund ERDF projects. Although this synergy was slow to emerge, from 2007 the ERDF became essentially a supplement to the much larger NE single Programme and was tightly integrated in terms of objectives and financial matching, although the abolition of RDAs and Single Programme have removed this linkage.

At the level of individual projects, beneficiaries have linked ERDF with a variety of funding sources including Millennium Lottery Funding and Higher Education funding.

EQ2e: What has been the overall contribution of ERDF programmes to regional development?

The scale of the problems faced by the region has meant that the challenge of making considerable change was always likely to be greater than the resources available. Nonetheless the region has seen transformation in some aspects, notably in a transformation of its external image, and in pockets of successful urban renaissance. However, there remain considerable problems yet to be addressed such as low levels of productivity, an underperforming private sector with poor levels of entrepreneurship and innovation, high levels of unemployment and worklessness, and some areas still in need of physical regeneration. Some of these challenges have been exacerbated by recent developments since 2008 as the region has been hard-hit by the global financial crisis and by subsequent austerity policies from the current government, illustrating the fragility of the region in spite of improvements.

Despite current difficulties though, the region is undoubtedly a better place to live in, and more attractive for investors and tourists, than it was in the 1980s. The physical regeneration has removed a number of the larger and more prominent derelict sites, especially in strategic locations such as around the city centres, replacing these with new homes and offices, business parks, leisure facilities and industrial parks. The commercial property market in the region was rebuilt from a situation where the private sector would not invest in commercial property as it could not guarantee a return on investment.

The region has been particularly successful in the development of an approach to culture-led regeneration which has created high quality new cultural facilities with impacts on tourism, quality of life and social cohesion through extensive community outreach programmes. This has been recognised through economic impact studies of individual projects as well as through aggregate increases in tourism numbers, although the scale of that improvement is debated within the region. The most important effect though has been the creation of a positive external image which has made it easier to attract people to the region as tourists, students, or mobile highly skilled workers and has therefore helped offset one of the region's principal disadvantages.

7.3 EQ3: What are the main lessons learnt on the effectiveness and utility of ERDF interventions?

EQ3a: What are the main good / bad practices?

The North East has gained considerable learning and experience from its engagement with the Structural Funds and the development of regional strategies. This has been put into practice in the development of the region's own strategy which has provided a framework around which the regional partnership has had some consensus. However this has now been undermined by the abolition of the RDA and strategy by central government, leaving the region with a strategic vacuum.

The region has also gained huge experience in developing successful projects in a number of key areas, for which it has gained national and international reputation. These include culture-led regeneration and the development of large cultural projects with an economic and social benefit, university engagement projects and especially inter-university collaboration, support for entrepreneurship and support for the development of knowledge based sectors. Some of these benefits will survive current changes in institutional frameworks in England.

An emerging negative issue has been the increasing audit burden and a perception of risk that project sponsors apply to ERDF support. Many sponsors are now cutting back on their exposure to ERDF as they are worried that any failure to deliver will result in clawbacks with losses that have to be made up from other funds. Some smaller non-profit agencies and universities have even withdrawn from applying for ERDF as a result of this.

There has also been concern that whilst for parts of the region it has been appropriate to refocus the programme on enterprise and growth sectors, this has effectively resulted in a double cut in aid to poorest communities, as they have lost the community development and regeneration funds that they previously got but do not have the growth businesses that can benefit from the new programme. Thus the ERDF is contributing to increasing disparities within the region.

The region faces great challenges in the completion of the current programme and the development of a new programme. Many of the region's problems have still not been effectively solved, the global financial crisis has created new threats and problems, and institutional and political change within the UK requires significant redesign of partnerships and processes for strategy development and implementation. Many of the lessons learnt from past programmes are tied up in human capital within the region and the continuity built up over the past twenty years is threatened by current changes and the loss of that expertise. The region will need to draw upon much of that knowledge to chart a way forward through this rapidly changing landscape.

EQ3b: What conclusions can be drawn for improving ERDF programme design, implementation, results-based management, achievements?

The value of a regional strategy as the foundation for the design of a regional programme, and the process involved in creating a strategy which has wide acceptance within the region has been clearly demonstrated and was recognised as important by all interviewees. The sophistication of strategies has evolved over time and the extent to which the ERDF programmes nest within a comprehensive regional strategy has increased. This provided a framework within which measures and projects could be better tied to regional needs, and learning from previous rounds of investment could be incorporated. However, this is now at risk following the abolition of the regional development agency and regional economic strategy. Regional partners are trying to prepare for the next round of ERDF with a bottom-up process of strategy building, but it is unclear yet whether this will be sufficient to ensure relevance and effectiveness.

In ensuring that regional strategies for programmes reflect the needs of the region, a position needs to be taken regarding needs and priorities. What is becoming clear in the North East from recent programmes is that needs vary within the region between areas and that programme design must either be flexible enough to meet these different needs, or else must establish a consensus about regional priorities. With reduced resources and in the light of past success the North East decided to focus the most recent programme, but this has implications for ability of certain areas to draw on the funds. Such decisions can be politically difficult and need to be handled transparently.

Related to the programme design is the question of matched funding. The existence of a strategy with associated funding has been important to the development of previous programmes. Prior to this the programmes tended to be driven by the organisations which had access to matched funding – particularly the local authorities in the early stages and then the urban development corporations, national programmes such as Business Link and latterly the RDA. Where matched funding has been tied to a widely accepted strategy there has been coherence of purpose, but in the absence of this there are risks that organisations with access to funding may capture parts of the programme for their own interests. These in turn may not reflect the most important needs of the region.

Good programme design is the first element in the successful implementation of results based management. The strategy needs to incorporate the identification of appropriate objectives and targets for results. There is a need though for a more sophisticated understanding of the manner in which projects contribute through their outputs to results at the regional scale. Currently there is a focus on monitoring project outputs, usually defined as a few simple quantitative metrics, with assumptions being made as to how these then contribute to results at the regional scale. With more innovative projects, especially where outcomes may be uncertain, the emphasis has been on tying projects down to the outputs rather than considering less tangible contributions to results. A results oriented approach that seeks to extrapolate from the maximisation of outputs may not be the best way forward, and a developmental model for the region which is based on an understanding of systems approaches to innovation and entrepreneurship requires a mix of activities with different kinds of outputs. A well designed results-based approach for the region needs to focus on the longer term developmental needs and the qualitative as well as quantitative contributions needed to achieve those results.

Inclusivity of participation, and hence the kinds of projects that emerge, depends on the selection of eligible measures and availability of matched funding but also on the willingness of partners to bid for such funding. Such willingness can be affected by the perception (and reality) of bureaucracy involved in the administration of the funds, and also on the perceptions of risk as a result of auditing and control of expenditure. There is a general view among all partners in the region that the complexity of the administrative processes has increased over time and several project sponsors reported problems with auditing and inflexibility of project control. Examples were given of instances in which the costs of auditing and corrections were disproportionate to the sums involved. This had led some sponsors to withdraw from participation in the most recent programme, especially after experiences of clawback. Clearly there is a need for appropriate procedures to ensure that funds are correctly and eligibly spent, but there was widespread agreement that procedures had become more bureaucratic than necessary and this was affecting participation - and perhaps more importantly - affecting the nature of projects, with a preference for safe and predictable projects.

In the design of projects, experience within the North East has shown that large scale projects can be more effective at times than large numbers of small projects and can achieve critical mass in making the desired changes. Concern over the profusion of small projects in the earlier programmes with very mixed performance led to a desire to support larger projects run by the more effective beneficiaries, and with tighter monitoring to ensure effectiveness. Size is not the sole determinant of quality though and a focus on larger projects also needs to be combined with more effective project selection and monitoring to ensure quality. However size can mean fewer projects and therefore it is easier to ensure that such projects deliver what is promised. This shift to larger strategic projects has also been partly driven by desires to reduce the administrative burden, which may not be a good reason on its own for such changes unless greater attention is placed on assuring quality.

Large size is not always a guarantee of project success, and some smaller projects focused on enterprise or community development can be highly effective because of the commitment and expertise of individuals, and a focus on specific communities. A particular lesson has been that intensive support to businesses is more likely to be effective than a focus on maximising the numbers of businesses assisted. Therefore, large projects which seek to provide generic business support may be less successful than smaller projects which are more focused and provide greater intensity of support to fewer firms. Effective project appraisal is important in determining the correct mix of large and small projects, and ensuring that all projects are effectively run, and this also requires people and processes which incorporate learning, practical experience and peer review. This has worked to a varying degree over time within the region, although again many beneficiaries felt that the current programme was not optimal for this.

Finally, in assessing targets and achievements within a region, there has been learning with regard to appropriate indicators and measurements and what might be expected from ERDF supported projects. A greater sense of realism over expected achievements is developing. This however still falls short of current thinking about results based management and an understanding of the changes which programmes are seeking to effect. In developing the next generation of programme the region needs to be clear about what its overarching objectives are and how it will measure whether those objectives might be and then have been achieved. At the same time the effects of synergies between projects, and with other national actions at the local scale, also needs to be further investigated so that the benefits of integration can be factored in rather than being almost excluded by a concentration on the results of individual projects.

8. ANNEX I – ANALYSIS OF PROJECT SAMPLES

8.1 Project major cultural facilities in Newcastle Gateshead (eg Sage Gateshead)

Summary description

The North East programmes have been distinctive in the investment in a number of major cultural facilities over much of the period. One particular cluster of these facilities has been on Gateshead Quays where there is the Sage music centre and the Baltic contemporary art gallery, both sponsored by Gateshead Council. Additionally a new footbridge, the Gateshead Millennium Bridge links these buildings to Newcastle Quayside with other new ERDF supported facilities such as Live Theatre and Seven Stories the national centre for children's books being close by. Elsewhere in Newcastle city centre, funding was provided to the International Centre for Life, Laing Art Gallery, Great North Museum, Theatre Royal, Tyneside Cinema etc. Funding for the projects was initially focused on capital costs of new construction or refurbishment of each of these with for example the Baltic being a major reconstruction of an old flour mill, the Live Theatre and Seven Stories being refurbishment of old warehouses, the Sage and Centre for Life being new build. More recently, Live Theatre has just obtained funding for the redevelopment of some small houses in a courtyard behind the theatre to use as incubator units for creative industry businesses.

The bulk of the funding was allocated in the 1994-96 and 2000-06 periods (see table below).

Centre for Children's books	2000-06	€7,026,899	€1,770,877
Sage Gateshead	2000-06	€48,679,683	€8,307,073
Baltic centre for contemporary art (retrospection)	2000-06	€2,755,221	€127,240
Gateshead Millennium Bridge (retrospection)	2000-06	€2,792,029	€698,007
Gateshead Quays visitor infrastructure (retrospection)	2000-06	€14,039,043	€3,344,911
Newcastle Dance House	2000-06	€4,481,061	€830,122
Northern Stage	2000-06	€11,572,726	€2,645,347
GATESHEAD Heritage And Visitor Centre	2000-06	€1,628,012	€461,540
Tyneside Cinema (3 projects)	2000-06	€5,588,316	€1,698,602
Great North Museum	2000-06	€23,694,312	€4,419,135
Baltic	1997-99	£39,000,000	£2,000,000
Sage music centre phase 1	1997-99	£3,782,000	£1,594,750
Millennium Bridge	1997-99	£9,000,000	£2,449,654
Discovery Museum	1997-99	£6,257,000	£1,136,000
Laing Art gallery	1994-96	£978,632	£469,250
Baltic site development	1994-96	£669,010	£113,000
International Centre for Life (4 projects)	1994-96	£32,066,000	£10,500,000

The projects listed above constitute the main projects on cultural facilities but leave some smaller projects for marketing and cultural events, some of the public realm developments and artworks on Newcastle Quayside, and the Angel of the North which is located on the southern edge of Gateshead rather than the central area.

Underlying problem and context

The projects aimed to address a weakness in the provision of cultural infrastructure in the region, in response to a perception that the region had experienced under-investment in quality cultural provision over the previous century. This was felt to inhibit the development of tourism in the region relative to other regions, but also limited the quality of life in the region for residents making it less attractive to investors and talented individuals. The strategies identified tourism and cultural facilities on a consistent basis from one programme to the next. In addition the projects sought to address wider social inclusion objectives by building in provision for raising educational standards and working with local communities. Several of the projects emerged from a strategy developed by Northern Arts to fill gaps in the capital provision within the region and became part of a focus on culture-led urban regeneration that was adopted by a number of local authorities, notably Gateshead and Newcastle.

Detailed description

The origin of some of these projects lies in a report produced by Northern Arts in 1995 called 'The Case for Capital' which argued for a £250 million investment in a number of major capital projects in the region including a regional concert hall. The Case for Capital set out a 10-year vision and ambition for investment in the arts in the North-East that has led to what has been described (perhaps not completely accurately) as 'the largest programme of cultural-led regeneration in Europe'. The objective of the case for capital was 'to put right 100 years of under-investment in cultural facilities and to provide a sea change in opportunity for people in the region to participate in and experience the arts.'

Individual projects such as the Sage and Baltic developed within this framework, but others on the list above followed as Newcastle and Gateshead local authorities and local partners sought to invest more to sustain the process of regeneration and win the UK nomination for Capital of Culture for 2008. Although that nomination went to Liverpool instead, Newcastle Gateshead was seen as a popular front runner in recognition of the massive scale of changes achieved.

Whilst the main objectives were to create high quality cultural facilities and attractions, 'world class' in some cases, these were intended to enhance the quality of life and make the region more attractive to investors and talented people, to attract tourists, to support education (especially music and science), and to support community development.

The projects are quite varied and include:

- Performance based facilities – a regional music centre, two theatres, and a dance centre
- Museums – a major enhancement of the regional science and industry museum, a refurbished natural history museum incorporating other university archaeological collections, and a museum of children's books
- An art house cinema

- Art galleries – the completion of one of the biggest contemporary art galleries in Europe and extension of an existing art gallery
- A novel footbridge and public realm improvements around some of the buildings

These projects have drawn on a wide range of funding sources, particularly the National Lottery, Arts Council, local authorities and various foundations. The Sage Gateshead had a substantial £6 million donation from the Sage software company based in Newcastle into an £11 million endowment fund to help support the ongoing activities of the music centre.

Outputs and achievements

Most of these projects have surpassed their initial targets and have made a considerable direct impact.

The Sage Gateshead has created between 539 and 564 jobs – before displacement – creating a gross value added (GVA) impact in the order of £8.1 million to £8.5 million a year. Additional impacts have come from purchases of £4.4 million from the local economy plus an additional £1.5 million in overnight visitor expenditure. Thus the total economic impact is of the order of £14 million per annum.

> *“In addition, The Sage Gateshead has raised £12.5 million from the private sector to create the second largest endowment of any arts organisation in the UK. This private sector investment yields annual income that supports the whole of The Sage Gateshead’s work and acts as a lever for ongoing revenue investment from the public sector – Arts Council England North East and Gateshead Council. This is currently approximately £3.5 million a year in core revenue support, plus an additional £3.4 million in additional support from the public sector in the most recent audited accounts (2008).” (Local Government Improvement and Development website,*
>
> *http://www.idea.gov.uk/idk/core/page.do?pageId=11228748)*

Other projects have also had large impacts. The Great North Museum attracted 1.3m visitors in the first two years after opening compared with a forecast of 300,000 per year, and was shortlisted for European Museum of the Year in 2011. The Baltic also attracted over 1 million visitors in its first year of opening and has been estimated at creating 500 jobs.

In addition these projects have a huge impact on the local population. The Sage contains a music school and it is estimated that over 500,000 people participated in some form of learning activity there between 2005 and 2009. Much of this was general music education aimed at schools and the public, although the centre also has strategic alliances with local universities such as its collaboration with Newcastle University in delivering folk music degree.

Value added

The level of additionality across the range of cultural projects varies greatly. In a few cases the project would have gone ahead without ERDF but with a slower time-scale and in many cases at a lower quality. It is clear though that ERDF has been an important element in a basket of funding which often required matching funds. So whilst ERDF needed matched funding from other sources, many of those sources also required matched funding so ERDF had an important role to play in bringing in other funds. For some projects, the absence of ERDF would have meant the project could not have gone ahead, and the full impact of the combination of projects over a relatively concentrated area and space of time would not have been achieved. Some of these were very large and highly complex projects and without an important element of funding such as ERDF the likelihood would have been that delays might have led to cancellation.

A key factor in the success of projects such as the Sage Gateshead has been the quality of the project, in terms of the design of the building, the scope of the activity housed and the quality of the business plan. The impact of the Sage has not just been that it is a concert hall, but that it is both a world class concert hall in a stunningly innovative building, and also that it is a community resource offering music education to a vast number of children and adults. The quality, and flexibility, of the building has created a strong visual image for the area, attracted visitors, enhanced the tourist's perception of Tyneside, and attracted national conferences, but it also at the same time creates an environment within which local people can be inspired through music. Interviewees commented that the biggest benefit may not be the economic impact, even though that is measureable, but the inspiration and confidence it inspires in local residents.

A number of the other projects such as Seven Stories, International Centre for Life, and Baltic have been recognized nationally and internationally as exemplary cultural projects which have been innovative in different aspects of the building, concept and business model. The region has developed real expertise in initiating and developing quality cultural projects which has been recognised in reputational terms.

Conclusions

The cultural projects have been successful in their own terms, generating direct employment and supporting community learning. They however have had greater impact on the image of the region both internally and externally. A focus on high quality made possible by the additional resources of ERDF has ensured a strong and positive external awareness of the cultural developments in Newcastle Gateshead, boosting regional tourism and creating a positive image for potential investors. Within the region the investments have enhanced quality of life, made the region more attractive for creative professionals and boosted the confidence of the local population.

8.2 Project: Finance for Business North East (Jeremie)

Summary description

The Finance for Business North East programme is a £125m Jeremie fund supported under the 2007-13 ERDF programme for North East England. It supports a suite of seven investment funds in the region. The seven funds are managed by six fund managers and target funding at SMEs from different sectors and at different stages of growth.

Underlying problem and context

The background to the Jeremie programme was to fill an identified equity gap below the £2 million level, enabling relatively early stage business in the region to obtain equity finance. Several of the current Jeremie funds had predecessors funded under previous Structural Funds programmes in the region. Jeremie was foreseen as an important tool for leveraging private sector finance, and a way of generating legacy funds that would continue to be available after the funding period.

Detailed description

The Finance for Business programme is supported by a loan from the European Investment Bank of £62.5m, with the remaining £62.5 million contributed jointly by the ERDF programme and ONE NorthEast.

The Jeremie Holding Fund (known as Business Finance North East) is managed by North East Finance in Newcastle. At the beginning of 2010, six sub-funds were launched under the Jeremie banner, and the microloan fund followed in 2011. The following investment funds are offered:

- *North East Technology Fund*: a £25m fund offering equity investments to technology businesses for seed and development stage finance. Funding will be available up to a maximum of £1.25m. The North East Technology Fund is managed by IP Group plc.
- *North East Angel Fund*: a £7.5m fund with a focus on working with business angels to invest in growth businesses in most sectors and predominantly at the early stage of development. It may also join business angels in later stage deals. The fund will generally invest between £50k and £150k in each company. The North East Angel Funds is managed by Rivers Capital Partners Ltd.
- *North East Proof of Concept Fund*: a £15m fund to prepare projects and start-ups for further investment and assist with demonstrating commercial viability. Investments will generally be between £50k and £150k. The North East Proof of Concept Fund is managed by Northstar Ventures.
- *North East Growth Fund*: a £20m fund to assist relatively mature companies at the development and growth stages. Companies benefitting will mostly be revenue generating and looking for growth capital up to £400k with a typical average investment per business of around £150k. A significant proportion of the money from this fund will be invested in quasi-equity type deals or as quasi-equity instruments within mixed deals. The North East Growth Fund is managed by NEL Fund Managers Ltd.
- *North East Growth Plus Fund*: a £20m fund targeted at relatively mature companies across most sectors looking for development and growth funding. The Growth Plus fund will typically provide larger funding packages than the North East Growth Fund – investing in the

region of half a million pounds in each business with a ceiling of £1.25m. The North East Growth Plus Fund is managed by FW Capital Ltd.

- *North East Accelerator Fund*: this £20m fund invests in growth businesses at an early stage of their development – predominantly at the seed capital stages. It primarily makes equity investments. Funding available will extend to a maximum of £750k. The North East Accelerator Fund is managed by Northstar Ventures.
- *North East Microloan Fund*: £5m Microloan Fund aims to support the creation of new enterprises and the growth of existing micro and small businesses across the region. Unsecured loans of between £1,000 and £25,000 are available for new and existing businesses, operating within eligible sectors, which are finding it difficult to secure mainstream finance. Loan support is targeted at key customer groups, including disadvantaged individuals, sole traders, partnerships and third sector enterprises. The North East Microloan Fund is managed by Entrust.

The number and focus of the funds was determined by the gaps identified in the gap assessment undertaken, as well as experience with financial instruments under previous programme periods, such as the Co-Investment Fund and Proof of Concept Fund, which provided a concrete articulation of where there was active demand. The funds were set up with a very deliberate overlap, to create competition between fund managers in the region and create choice for SMEs. The funds' remits are therefore 'quite broadly defined and intended to be flexible, allowing them to compete with other funds', as 'For too long, companies only had one place to go.' The focus was also intended to encourage new entrants into the North East capital market.

The funds are characterised by a number of potentially competing objectives. The funds as a whole (though not individually) must achieve significant commercial returns, driven by the EIB loan element in the funding package. The servicing and repayment of the EIB loan is therefore a key driver, and this precludes some from investing only in early stage companies, as other early stage investors might. To meet their annual targets, they must also invest in later stage, cash generative investment, untypical of a 'pure' venture capital fund. For this reason some of the equity providers must offer a mixture of funding instruments, including loans. However, this can be/is managed at overarching fund level, where the Holding Fund managers seek to ensure a balanced portfolio for the funds as a whole. However, the end result may be a lower risk profile than typical for early stage equity capital investors.

Outputs and achievements

The Jeremie fund totals £125 million, of which c £110m has been so far allocated (February 2012). The remaining £12.5m is expected to be allocated during 2012. The headline outputs which North East Finance has committed to deliver for the ERDF through the Jeremie Fund are:

- 850 SMEs supported
- 5,017 jobs created
- 2,801 jobs safeguarded.

Many of the funds 'got off to a flying start' with a high level of pent-up demand exhibited. This may have been partly due to a hiatus between old and new funds, as well as PR activity in the run-up to the funds launch. The fund is profiled to have spent all funds by the end of 2014.

As an example of the overwhelming level of initial demand, the Accelerator Fund received 300 applications in the first few months, and the Proof of Concept Fund receiving 200. These two funds are still experiencing a steady level of demand, with the Accelerator Fund averaging c.14 new applications a month and the Proof of Concept Fund averaging c.25 new applications a month.

In terms of outputs, the Accelerator Fund has supported 28 companies since launch (c.£10m), which represents c. half the £20m fund. The PoC has supported 78 companies, and has spent just under £8m (of £15m).

The funds have targets for leveraging private sector finance. The Accelerator Fund, for example, passed this target on the first deal. However, one interviewee noted that leverage from the private sector is becoming more difficult in the straitened financial climate, and that leveraged deals are harder to come by.

The smallest fund, the £5m microloan fund is very important in terms of the overall Jeremie outputs, as it is expected to deliver a large proportion of the outputs in terms of jobs, businesses safeguarded etc. The microloan fund has also experienced a large level of demand. The first loans were drawn on 1 June 2011, and by late December 2011, loans to the value of £2m had been approved (target £1.3 million). In addition to the high level of demand, quality of applications has been higher than anticipated; a precursor of applying is that applicants must have been turned down by a mainstream financial institution.

When the fund was launched, its target was 700 businesses assisted and 100 jobs created/safeguarded. Within these figures, the microloan fund also has have targets for disadvantaged communities and individuals assisted. As fund demand developed, the fund managers realised that the average loan requested was higher than anticipated. The target for the end of 2011 was 141 businesses supported, (actual 161), 191 jobs created/safeguarded (actual 322). For 2012, the target has been adjusted to reflect this, keeping the jobs target at the same level, but reducing the number of businesses assisted to 500. In addition, demand has 'levelled off', again due to the difficult economic climate.

Value added

The availability of Jeremie funding is described as having 'made the North East one of the best places in the UK to start a business'. This fund, along with ERDF-supported funds in previous programme periods, has supported many businesses seeking finance in a difficult economic external environment where it is currently difficult to raise finance for a SME - 'A lot of deals in the market at the moment are funded through Jeremie', and encouraged new private sector and angel funding to come into the region, helping to build an investment infrastructure in the region, and developing the regional skills base. A concrete example is the securing of the participation of the IP Group, a leading UK intellectual property commercialisation company to Manage the North East technology Fund, representing the group's first arrangement in the region.

Management and monitoring issues

Fund managers submit regular reports to the Holding Fund manager, North East Finance, reporting quarterly on indicators such as disbursement, default rates, full time jobs created and safeguarded, new turnover and safeguarded, private sector leverage, R&D post-investment, environmental management, knowledge base etc. The microloan fund additionally reports on progress on geographical spread, sectoral spread, and support to disadvantaged/non-disadvantaged areas.

Conclusions

Interviewees stressed the value of the current Jeremie project to the region. It addresses an identified funding gap and has significantly expanded the availability if finance to SMEs in the region, particularly at a time when less is available from the mainstream bank sector. On fund launch, demand was seen to be very significant, although this has levelled off to a certain extent, and the adverse economic climate is being seen to have an impact.

Several specific issues for future projects were raised by interviewees:

- There is a gap in the market for succession-type investments that the funds can't support, suggesting evidence of market failure in this area.
- The target market for the microloan fund is different from the other Jeremie funds e.g. the long term unemployed, where low barriers to entry are key. For this reason, the UK interpretation of restrictions on lending to personal services and retail are problematic. The fund managers have also identified a dearth of on-going support and advice for sole traders and start-ups in the regions. There is a need for capacity to support applicants pre- and post-investment, helping them build up a healthy credit history, for example.
- The Jeremie fund in North East England is structured to fit within the GBER for State aid purposes (with the microloan fund falling under de minimis). There is lack of certainty with regard to how cumulation works with regard to risk capital, and clarification is needed.
- There is significant concern that Commission proposals to prevent interest and returns attributable to ERDF being used to repay EIB loans will in future make structuring viable Jeremie funds involving EIB loans very difficult.

8.3 Project Science City Newcastle

Summary description

Science City Newcastle is a strategy which has been developed by a partnership of Newcastle University, Newcastle City Council and One NorthEast. The aim of the partnership has been

- To ensure that Newcastle is synonymous across the world with excellence in three scientific fields; ageing & health at Newcastle Universities Institute for Ageing & Health; stem cell & regenerative medicine at The International Centre for Life; and in sustainability, which will be the focus of Science Central, on the site of the former Newcastle Brewery in the heart of the city centre.
- To create prosperity for the city and wider region by supporting the creation of new businesses and jobs and assisting new businesses to innovate and grow.
- To ensure that the local population can become part of the city's continued scientific achievement.

NSC has been identified as one of the 'innovation connectors' in the 2007-13 programme as a key element of Priority 1: Enhancing and exploiting innovation. The aim is to provide a 'geographical focus for the application of science and innovation related activities (which) will combine leading edge facilities, joint business and university research and development programmes, education and access to employment programmes'.

Three projects have been funded by the ERDF in the current programme, and illustrate different aspects of the vision for NSC: building translational research capacity in the university, supporting a pipeline of new spin off companies, and engaging the community more widely in science.

Title	Proposer	ERDF Grant Total
Translational Research Building	Newcastle University	2,547,800
Newcastle Innovation Machine (NIM)	Newcastle Science City Company Ltd(NSC)	3,000,000
Community Engagement	Newcastle City Council	884,999
		6,432,799

Underlying problem and context

The Science City project started as an opportunity rather than a need in that the national government in 2005 designated Newcastle as one of what became six science cities, which were tasked to develop a science based economic and social development strategy. The science city strategy seeks to build on the existing science base in the city, especially that of Newcastle University and to link this both with economic development through spin offs and SME links but also to connect with the wider community through education and engagement. As such, the Science City strategy links with wider regional problems, in the form of low levels of innovation and enterprise, and the need to develop a new source of employment and high productivity output. However, by taking a territorial focus, the Science City seeks to make the connection between an innovation strategy approach and physical and community development within the city. So the partnership (City, RDA and University) acquired a major derelict site on the edge of the city centre where a brewery had closed and have been redeveloping it as a new mixed use quarter incorporating translational research and enterprise, known as Science Central. This is then being linked to engagement in the disadvantaged community immediately adjacent to the site. Another key site is the Campus for Ageing and Vitality which is developing on the site of a former general hospital where hospital use has been significantly reduced to a smaller facility for care for the elderly. Another part of the site is used by university research facilities for ageing and is being expanded into perhaps the biggest such facility in Europe, whilst part of the site is being sold for retail and community use, but building in facilities, services and projects to promote healthy ageing.

Detailed description

The three projects funded so far are quite distinct but illustrate the broad strategy being development by NSC. The translational research building is a new facility on the Campus for Ageing and Vitality. The aim is 'to work together to generate innovation in products and services for the support of healthy ageing and independence through-life. Such a campus would be a world leader and provide quality jobs, economic growth and improved quality of life for older people in the city and wider region.' The TRB is currently being completed and will house researchers and businesses, and provides a model that will be developed for another major site in the city centre. The

Innovation Machine is a process by which societal needs are identified and worked up into business prospects which can then be developed by entrepreneurs in collaboration with researchers. The aim is to start with a market need rather than a technology, and to develop appropriate technological solutions with the assistance of the university and other local partners. Finally the community engagement programme seeks to support community groups in developing science awareness projects and engaging young people in science.

The main Science Central campus has not received ERDF support as so far the work has focused on site restoration and private sector construction of a business school, student residences and a hotel on land adjacent to but not owned by the main consortium.

Outputs and achievements

The Innovation Machine has been quite an experimental project and has tested an approach which has been found to be useful even if the outputs so far have been modest. In terms of new businesses the project has led to the launch of seven businesses with a further four planned for 2012. The model of identifying new markets is to be further developed and may be used with larger firms as well as new start-ups. What is perhaps most significant is that this project looks to develop radically new firms in new markets and hence differs from many existing entrepreneurship programmes where many of the businesses may emerge in existing and mature markets.

The translational research building is under construction and will house commercialisation activity as well as research but is not yet completed.

The community engagement project involved the use of science community workers to develop science-related projects in local communities and provided grants and commissioned projects with community groups. It has been distinctive in making a link between the innovation agenda and local disadvantaged communities which was seen as being at the heart of the city's vision for the wider strategy. Many of the events organized have been targeted at promoting an interest in science for local schoolchildren, as participation in higher education is low in the city and particularly low in some of the inner areas of the city.

Value added

These projects are very much at the start of a long-term strategy for developing Newcastle as a science city and as such are experimental and groundbreaking. The value added is expected to come from the cumulative effect of the softer projects over a period of years when combined with the major site development, although the latter has been slowed by the global financial crisis and the abolition of the RDA, although an incubator project has been given the go ahead with national funding.

Conclusions

This group of projects illustrates the way the innovation and enterprise agenda is being linked with regeneration and community development in a few locations within the region. They show innovative thinking and a willingness to experiment. However, there was concern with Newcastle University that such experimentation may be difficult to sustain given current trends in audit and an expectation that project targets and achievements can be predicted and predictable at the contracting stage.

8.4 Project Knowledge House

Summary description

Knowledge House was a project developed by the five universities in the region to help SMEs find appropriate assistance from within the universities to technical problems, and to facilitate that assistance through financial support to pay for some of the time of the academics involved.

The project initially developed in 1996 within the 1994-96 programme, but was extended through assistance under the 1997-99, 2000-06 and 2007-13 programmes. Altogether the four phases received £3.6 million of ERDF funding. This was matched by university funds initially but then a mixture of university funds and Higher Education Funding Council for England (HEFCE) grants for industry engagement. The idea for the project originated in Newcastle University but was developed as a collaborative project involving all five universities under the aegis of Higher Education Support for Industry in the North, a voluntary association of the universities (later renamed Universities for the North East). HESIN/UNE coordinated a large number of projects over the period from 1990 to the closure of the central office in 2012, with a total grant income of just under £68 million. The main ERDF engagement was the Knowledge House project which accounted for most of the ERDF grant, although a larger amount of grant was obtained from ESF. By far the biggest source of income was from HEFCE.

Underlying problem and context

The project was originally designed to meet the needs of SMEs with technical problems which were unaware of how to find help from the region's universities. It addressed the central innovation and productivity concerns of the region by assisting SMEs to solve technical problems and realise opportunities to innovate and grow. As such, it was demand driven, in that it offered responses to specific needs expressed by SMEs rather than seeking to commercialise university knowledge or intellectual property.

Detailed description

The project provided a network of offices in each of the region's universities with a central node based at RTC North, a regional technology centre. SMEs could contact any of the centres with a technical problem and the KH staff would find a suitable academic willing to help solve the problem from across the whole network. Thus SMEs would be put in touch with potentially more than one expert from more than one university, and would then be able to choose which was better suited to their needs. KH also provided project management support to ensure the problem was resolved and that the contract was delivered to everyone's satisfaction. At certain points innovation vouchers were available to pay for a proportion of the academic time involved, although the firm was also expected to pay a market rate for any days in addition to those directly subsidised.

At the outset it was anticipated that most of the SME referrals would come via intermediaries such as Business Link, but in practice such referrals were very few in number and KH had to develop a direct link with business, although this it did very successfully. Over time the service increased the scope of its activities, mainly with the additional funding which was coming from national sources, whilst the ERDF-supported work with SMERs remained as the core activity.

Outputs and achievements

Overall the project was highly successful, although in the current programme it experienced some considerable difficulties before being wound up by the universities.

The initial project in the 1994-96 programme considerably exceeded its forecast outputs, assisting 860 firms against a target of 425 and providing 1515 consultancy days against the forecast target of 575. Events and workshops also massively exceeded targets. The second phase was a larger scale with 2917 consultancy days delivered, although the number of firms assisted was lower at 526 because support was more intensive. Outputs were pretty much as forecast. In the third round in 2000-06 the project missed its target on firms assisted as average project size was greater than forecast but the overall results were mainly above forecast with £15.5m new turnover generated in supported SMEs, 140 gross new jobs created and 312 jobs safeguarded. The target for safeguarded jobs was exceeded by 373% whilst that for new jobs was underperformed by 8%, which perhaps illustrates the kind of firm and project involved – generally the projects were helping firms with existing technical problems which might be seen as challenges to the firm rather than just opportunities.

The final phase in 2008 was disappointing with low numbers of enquiries, low conversion rates of enquiries to projects and a period where the project virtually ground to a halt. Part of this was explained as being due to reduced business confidence in 2008 and an unwillingness of firms to commit resources to innovation projects. However there were reported difficulties with the administration of the grant. There were delays in starting the project which led to frustration and projects being turned away, leading to loss of goodwill. Most importantly though it was reported that compliance and audit issues created severe problems. Retrospective changes in the interpretation of compliance requirements coincided with a nationally mandated requirement from HEFCE that universities complied with full economic costing. This led to an increase in the universities of perceived risk and a struggle to find a credible business model that satisfied both sets of requirements. Shortly afterwards the universities decided not to continue the Knowledge House project as a collaborative activity with ERDF support but each developed its own approach to working with SMEs, based on the experience and learning that had been gained through Knowledge House.

Overall Knowledge House was an extremely successful project, despite the problems at the end, and was frequently cited as an international exemplar (by OECD among others), with a similar model being adopted in other regions (eg Scotland). Over its life (and including non-ERDF assisted elements) it generated £32.2 million of private sector income into the universities in the form of payments from SMEs and larger firms.

Value added

A key achievement of the project was a step change in the universities' activities in working with business, but also in their willingness to collaborate as a group in support of the region. The project also supported process innovation within the universities in the development of new information systems and project management software used in the support of KH projects but also adopted by at least some of the universities for wider internal use.

Conclusions

Knowledge House was an innovative project that delivered benefits to SMEs, but more importantly tested approaches to collaboration between universities and provided a baseline for other collaborative projects within the region.

9. ANNEX II – STRUCTURE OF NE ENGLAND PROGRAMMES 1989-2013

All funding in millions of ecus/euros

Programme	EU Funding source	ERDF alloc	ESF alloc	National funds (inc private)	Total funds
TAWSEN IDOP 1989-93		151.5	43.363	Not available	Not available
Action Programme 1					
1.1 Infrastructure for Industry	ERDF	44.447	0.175		
1.2 Training for Future Needs	ESF	0.894	7.993		
1.3 New Technology	ESF	3.572			
Action Programme 2					
2.1 Business Skills	ESF	0.073	3.229		
2.2 SME Creation & Development	ERDF	0.678	10.878		
2.3 New Technology Applications	ESF		14.773		
Action Programme 3					
3.1 The Internal Network	ERDF	49.040			
3.2 External Links & the Single Market	ERDF	24.840			
Action Programme 4					
4.1 Tourism	ERDF	22.847			
4.2 Image	ERDF/ESF	5.113	6.314		
DURHAM AND CLEVELAND 1989-93 (1989-91 figures only)		49.68	19.32	108.15	
SP1 Business support	ERDF	9.94		10.77	45.01
SP2 Land and premises	ERDF	12.92		19.38	32.30
SP3 Communications	ERDF	11.92		35.76	47.68
SP4 Image	ERDF	7.45		7.45	14.90
SP5 Tourism	ERDF	7.45		11.18	18.63
SP6 Training	ESF		19.32	23.61	42.93
NE OBJECTIVE 1994-96		231.00	74.34		
P1 Strategic Business development & Inward Investment		60.06	9.24		
1.1 Strategic Sites & Premises	ERDF				
1.2 Gateway & Network Facilities	ERDF				
1.3 Inward Investment Support & Supplier Chain Development	ERDF				
1.4 Customised Training Needs	ESF				
P2 SME & Local Business Development		76.24	34.66		
2.1 Clusters of Competitive Advantage	ERDF				
2.2 SME Development	ERDF				
2.3 Local Enterprise Development	ERDF				

2.4 Facilities for Training & Business	ERDF				
2.5 Specific Training Needs of SMEs & Local Businesses	ESF				
P3 Development of Knowledge Based Industries		36.94	12.31		
3.1 Facilities for, & Enhancement of R&D and Tech'y Infrastructure	ERDF				
3.2 Development and Integration of Clean technologies	ERDF				
3.3 New Technology Skills	ESF				
P4 Developing the Cultural & Tourism industries		34.65	3.85		
4.1 Facilities for/Productive Investment in Cultural/Tourism Industries	ERDF				
4.2 Promotion & Marketing of Tourism					
4.3 Training for the Cultural, Media & Tourism Industries	ERDF ESF				
P5 Community Economic Development		18.49	15.41		
5.1 Community Development Packages					
5.2 Targeted pre-vocational, Vocational & Basic Skills Training	ERDF ESF				
P6 Technical assistance		4.62	1.87		
6.1 TA (ERDF)					
6.2 TA (ESF)	ERDF ESF				
NE OBJECTIVE 2 1997-99		282.195	96.225	595.218	973.638
P1 Small Business Start-up, SME Growth & Development		94.155	37.351	204.435	335.941
1.1 Small Business Start Up	ERDF	8.070		8.070	16.140
1.2 Access to Finance	ERDF	13.451		31.386	44.837
1.3 Raising SME Performance	ERDF	13.451		20.177	33.628
1.4 SME Development through Markets	ERDF	13.451		20.177	33.628
1.5 Facilities for SMEs	ERDF	45.732		68.598	114.330
1.6 Specific training needs of SMEs and start up businesses	ESF		37.351	56.027	93.378
P2 Technology, Innovation and the Environment		46.662	17.786	86.468	150.916
2.1 R&D and Technology Transfer	ERDF	26.901		40.352	67.253
2.2 Information Technology for SMEs	ERDF	8.070		9.863	17.933
2.3 Environmental Initiatives	ERDF	11.691		11.691	23.382
2.4 Technology and Environmental Skills	ESF		17.786	24.562	42.348
P3 Strategic Regional Developments		110.363	15.118	241.756	367.237
3.1 Strategic Economic Development Areas	ERDF	48.422		89.927	138.349
3.2 Sectoral Employment Packages	ERDF	32.293		59.973	92.266
3.3 Embedding the Benefits of Strategic & Sectoral Developments	ERDF	29.648		69.179	98.827
3.4 Embedding the Benefits of Strategic & Sectoral Developments (ESF)	ESF		15.118	22.677	37.795
P4 Community Economic Development		28.325	25.081	58.980	112.386
4.1 Community economic development packages (ERDF & ESF)	ERDF	28.325		28.325	56.650

4..2: Community economic development packages (ERDF & ESF)	ESF		25.081	30.655	55.736
Technical Assistance	ERDF/ESF	2.690	0.889	3.579	7.158
NE OBJECTIVE 2 2000-06		610.979	135.670	1266.677	2013.331
P1 Establishing an Entrepreneurial Culture		69.323	11.639	133.073	214.036
1.1 Growing New Businesses & Marrying Entrepreneurs with Ideas	ERDF				
1.2 Providing Access to Finance					
1.3 Premises for New Businesses	ERDF				
1.4 Human Resources and micro finance for Entrepreneurs	ERDF ESF				
P2 SME Growth and Competitiveness		324.639	54.334	592.519	971.492
2.1 Assisting SMEs to Expand					
2.2 Providing Access to Finance	ERDF				
2.3 Developing New Markets and Customers for SMEs	ERDF ERDF				
2.4 Transferring Technological Assets to SMEs					
2.5 Developing SMEs in Clusters and Sectors	ERDF				
2.6 Accommodation for SMEs					
2.7 HRD for SMEs in Clusters and Sectors	ERDF				
2.8 HRD for Technology Skills					
	ERDF				
P3 Strategic Employment Opportunities	ESF ESF				
3.1 Meeting 21st Century Transport, Communications & Property needs		124.836	1.382	376.194	502.413
3.2 Embedding Employment Opportunities					
3.3 Realising the Renaissance of Our Rural and Urban Communities	ERDF				
	ESF				
P4 Access to Employment and Training for Residents of Target Communities	ERDF				
4.1 Access to Employment & Training Opportunities for Residents of Target Communities		86.074	66.956	157.423	310.452
4.2 Promoting Community Based Enterprises	ERDF				
4.3 Investing in Sustainable Communities					
4.4 Access to Employment & Training Opportunities for Residents of Target Communities	ERDF ERDF				
4.5 Improving Employability: Links to Community Capacity, Businesses and Sustainability	ESF				
P5 Technical Assistance	ESF				
5.1 Programme administration and delivery					
5.2 Promotion, Research and Evaluation of the Programme		6.110	1.359	7.468	14.938
	ERDF & ESF ERDF & ESF				
NE ERDF Competitiveness Programme 2007-13		375.698		375.699	751.398
P1 Enhancing and Exploiting Innovation		199.192		199.192	398.240
FoA 1 Investment in Innovation Connectors					
FoA 2 Support for innovation and technology-led	ERDF				

sectors	ERDF				
FoA 3 Exploitation of the science base	ERDF				
P2 Business Growth and Enterprise		161.550		161.550	323.101
FoA 1 Cultivating and Sustaining Enterprise, including Social Enterprise, in Disadvantaged Areas	ERDF				
FoA 2 Enhancing the Competitiveness and Growth of existing SMEs, including social and community based enterprises	ERDF				
P3 Three: Technical Assistance	ERDF	15.028		15.028	30.055

10. ANNEX III: REPORTED ACHIEVEMENTS

10.1 1994-96 Regional Operational Programme

This programme introduced standardised output indicators which could be aggregated across each of the priorities as shown in the table below. Indicators relating to outputs were produced for each project, but also the expected results in terms of jobs created and for a range of other specific indicators.

	A SPD Target	B Potential Output Approved Projects	% B:A	C Actual Output Approved Projects	% C:B
PRIORITY ONE					
Output Indicators					
Hectares land prepared for development	200	816	408	346	42.4
Sq.m new/converted business accommodation	80,000	423,440	529	86,312	20.4
Km public transport infrastructure	10	0	0	0	0
No. potential inward investors assisted	200	50	25	8	16
No. supply chains established	20	0	0	0	0
ESF beneficiaries pa	2,500	5,335	213	0	0
Expected results					
Jobs created *	25,700	38,264	148.9	7,492	19.5
Jobs safeguarded *	1,900	6,620	348.4	138	2
Occupancy rate of sites & premises	N/A	0	0	0	0
£m Private sector investment levered	10	1,020	1020	158	15.5
% increased tonnage: non-road freight facilities	5	0	0	0	0
No. jobs creating inward investment	25	0	0	0	0
£m Value of new supply contracts	10	0	0	0	0
% of trainees to obtain NVQs or equivalent	80	89	111	0	0
% of unemployed trainees employed by inward investors	75	N/A	0	0	0
PRIORITY TWO					
Output Indicators					
No. businesses to be assisted	13,100	28,184	215.1	31,017	110
Hectares land prepared for development	100	318	318	49	15.4
Sq.m floorspace	110,000	194,822	177.1	22,940	11.8
No. trainees pa	5,300	14,423	272.1	22,671	157.2
No. beneficiaries of wage/employment subsidies pa	4,000	4,214	105.3	5,758	136.6
Expected results					
Jobs created *	11,900	15,018	126.2	6,777	45.1
Jobs safeguarded *	22,200	23,450	105.6	6,609	28.2
£m Private sector investment levered	40	74	38	2	2.7
No. new businesses set up	2,000	3,837	191.8	1875	48.9
Occupancy rate of sites and premises	N/A	0	0	0	0
£m Additional turnover as result of business support	10	0	0	0	0
Businesses obtaining recognised quality approval	100	0	0	0	0
% Trainees obtaining NVQ level 3 (or equivalent)	80	54	68	0	0
% BSUS etc beneficiaries still in business after 12 months	80	N/A	0	0	0
PRIORITY THREE					
Output Indicators					

Businesses assisted	1,200	3,980	331.6	969	24.3
Sq.m accommodation for innovators/innovating SMEs/centres of excellance	30,000	30,371	101.2	10,907	35.9
No. alternative energy projects assisted	20	5	25	5	100
No. trainees per annum	3,200	2,350	73.4	2,231	94.9
Expected results					
Jobs created *	1,000	2,275	227.5	60	2.6
Jobs safeguarded *	2,500	2,112	84.5	199	9.4
No. 4th Framework projects secured	20	1	5	0	0
% trainees obtaining level 4 NVQs/equivalent	80	56.2	70.2	0	0
% increase in graduate placements in industry	30	N/A	0	0	0
% increase in employment & expenditure on R&D	N/A	0	0	0	0
Contribution to UK government's targets on reductions in pollution levels	N/A	0	0	0	0
PRIORITY FOUR					
Output Indicators					
No. new/improved visitor attractions	50	81	162	15	18.5
No. marketing/promotional campaigns	65	21	32.3	21	100
Hectares of land improved	120	214	214	8	3.7
No. training places pa	1,000	1,121	112.1	2,523	225
No. SMEs to benefit from training & employment subsidies	100	644	644	105	16.3
Expected results					
Jobs created *	2,500	1,925	77	196	10.2
Jobs safeguarded *	1,500	3,558	237.2	239	6.7
£m private investment levered	40	24	60	8	33.3
No. additional visitor trips to the region pa	2,000,000	969,599	48.4	86,745	8.9
No. additional overnight stays pa	300,000	1,825,085	60.8	313,393	17.2
% beneficiaries obtaining NVQs/equivalents	80	49	61.2	0	0
% unemployed trainees to obtain employment in tourism etc	75	N/A	0	0	0
PRIORITY FIVE					
Output Indicators					
No. community appraisals to be conducted	25	56	224	11	19.6
No. community businesses/co-operatives assisted/advised	100	536	536	190	35.4
Hectares of land improved	30	16	53.3	5	31.2
No. community facilities built/improved	50	71	142	37	52.1
No. trainees pa	4,000	10,132	253.3	10,132	100
Expected results					
Jobs to be created *	800	1,598	199.7	108	6.7
Jobs to be safeguarded *	700	596	85.1	170	28.5
£m private sector investment levered	7	2	28.5	0	0
Reduction in the disparity btwn unemployment rates	N/A	0	0	0	0
No. new community businesses/co-operatives established	50	38	76	6	15.7
% community appraisals to be fully implemented by 1996	50	20	40	20	40

* Jobs created and safeguarded have been netted down to take account of potential duplication of outputs.

Source: North East of England Objective 2 Programme1997-99 Final Report

10.2 1997-99 Regional Operational Programme

Measure 1.1: Small Business Start Up			
	Target	Forecast[1]	Reported[1]
Outputs:			
Potential Businesses Advised	11,600	11,214	9,088
Potential Businesses provided with substantive assistance (minimum £1,000 or 3 person days of assistance).	4,100	973	1,078
New Businesses set-up	3,690	4,360	2,541
New Businesses set-up to be run by under-represented groups	370	718	743
% New businesses surviving beyond 1 year of start up	85	53	53
% New businesses surviving beyond 2 years of start up	75	16*	2*
£m turnover in assisted businesses by end 2001	1.384	1.95	0.34
Results and Impacts:			
Gross Additional Jobs	5,535	5,423	6,443
Net Additional Jobs	1,218	1,817	650
Measure 1.2: Access to Finance			
Outputs:			
Businesses assisted with financial planning /preparation	3,100	1,378	1,300
SMEs to be assisted with loan or equity finance through Regional Investment Fund (of which 30 to be SMEs run by members of under-represented groups)	300 (30)	296 (30)	172 (5)
SMEs to be assisted in addressing demonstrable funding gaps through other gap funding providers (of which 250 to be SMEs run by members of under-represented groups)	2,500 (250)	1,234 (58)	891 (46)
£ million in private sector contributions to eligible costs	8.967	8.361	7.203
% New businesses assisted with finance to survive 1 year following investment	85	62	55
% New businesses assisted with finance to survive 2 years following investment	80	34	14
Impacts:			
Gross Additional Jobs	4,700	4,261	4,491
Net Additional Jobs	2,092	3,601	2,065
Measure 1.3: Raising SME Performance			
Outputs:			
SMEs participating in awareness raising activity	7,500	99,932	163,565
Businesses benefiting from advice/assistance valued at £500 - £1,000 or 1-3 person days	2,500	8,554	6,407
Businesses benefiting from advice/assistance valued at £1,000 - £2,000 or 4-5 person days	2,000	1,980	337
Businesses benefiting from consultancy or other substantial assistance (minimum value £2,000 or 5 person days)	2,500	748	500
Businesses implementing consultancy / counselling conclusions	4,200	5,973	3,560
£m additional turnover in assisted SMEs by 2001	186	42.92	41.61
Impacts:			
Gross Additional Jobs	4,660	3,122	2,949
Net Additional Jobs	1,794	2,546	937
Measure 1.4: SME Development through Markets			
Outputs:			
Businesses benefiting from assistance valued at £500 - £2,000 or 1-5 person days	2,800	3,030	2,076
Businesses benefiting from substantial assistance (greater than £2,000 or 5 person days)	3,920	1,621	315
Businesses benefiting from substantial assistance to implement consultancy / counselling conclusions	2,350	2,587	1,409
£ million additional turnover in assisted SMEs by 2001	186	44.59	35.05
Impacts:			
Gross Additional Jobs	4,660	1,828	519
Net Additional Jobs	1,794	1,362	981
Measure 1.5: Facilities for SMEs			
Outputs:			
M^2 of new industrial and commercial accommodation for SMEs	187,600	84,530	32,312
M^2 of converted industrial/commercial accommodation for SMEs	46,900	35,750	18,303
Ha of land to be serviced for industrial and commercial development for SME use	67	59.24	35
Ha of brownfield land to be serviced for industrial and commercial development for SME use	33.5	14.5	12
£ million private sector investment	31	15.33	9
Man Years of Temporary Employment	3,480	697	466
Jobs accommodated	6,612	225	125
Occupancy rate of sites and premises within two years of physical completion (%)	75	77.13	46.80

Impacts:			
Gross Additional Jobs	6,612	3,685	2,005
Net Additional Jobs	1,520	2,898	1,093
Source: European Programmes Secretariat			
[1] Forecasts and monitoring reports from approved projects			

Measure 2.1: R&D and Technology Transfer			
	Target	Forecast[1]	Reported[1]
Anticipated Outputs			
Businesses provided with basic advice	2,500	5,106	4,260
Businesses benefiting from basic assistance (<5 days/£2,000)	2,000	3,364	2,576
Businesses benefiting from substantial assistance (>5 days/£2,000)	2,000	1,457	949
Businesses receiving intensive assistance to participate in collaborative R&D contracts (>10 days/£4,000)	25	208	150
Businesses receiving intensive assistance in bringing new products to market (>10 days/£4,000)	50	331	180
Businesses implementing results of assistance	2,240	2,919	897
Private sector contribution to eligible cost (£m)	£8.967	4.238	0.827
Increase in turnover in businesses implementing results of assistance by 2001 £m	145.7m	511.6m	55.1m
Impact Indicators:			
Gross jobs created	2,914	1,625	1,052
Net additional jobs created	1,253	1,065	437
Measure 2.2: Information Technology for SMEs			
Anticipated Outputs:			
Sub-regional ICT utilisation surveys	3	1	1
SMEs to have participated in ICT awareness-raising activity	5,000	13,524	87,323
SMEs benefiting from substantial assistance (>5 days/£2,000)	1,800	2,014	1,537
Connectivity and network exploitation initiatives implemented	5	20	17
SMEs to implement the results of substantial assistance	1,440	1,738	1,247
Increase in turnover in assisted SMEs by 2001	£29,250,000	£19,194,326	£29,349,731
Impact Indicators:			
Gross jobs	650	718	863
Net additional jobs created	250	695	617
Measure 2.3: Environmental Initiatives			
Anticipated Outputs:			
Businesses benefiting from advice/assistance	800	3,719	2,884
Businesses benefiting from substantial assistance (>5 days/£2,000)	1,035	722	391
Demonstration projects	6	20	13
Businesses benefiting from substantial assistance to implement outcomes of assistance	930	601	277
Outcomes of assistance:			
Increase in turnover in assisted SMEs	£40,000,000	£9,599,001	£3,105,518
Reduction in energy usage by SMEs implementing advice	10%	N/A	N/A
Reduction in waste usage by SMEs implementing advice	5%	N/A	N/A
Impact Indicators:			
Gross jobs created	800	383	242
Net additional jobs created	400	165	13
Source: European Programmes Secretariat			
[1] Forecasts and monitoring reports from approved projects			

Measure 3.1 Strategic Economic Development Areas			
	Target	Forecast[1]	Reported[1]
Anticipated Outputs			
Ha Land Prepared For Development	155	227	109

Ha Brownfield Prepared For Development	124	122	9
Sq M Bus Premises Constructed/Refurbished	46,100	143,277	33,427
£M Private Sector Leverage	492	84	13
Man Years Temporary Employment	3,354	2,443	1,376
Jobs Accommodated	15,500	4,510	939
% Occupancy Rate By 2001	80.0	N/A	N/A
Anticipated Impacts			
Gross Additional Jobs Created	15,500	8,435	1,174
Net Additional Jobs Created	6,665	6,960	2,244
Measure 3.2 Sectoral Employment Packages			
Outputs:			
Tourism and Cultural Attractions Developed	40	42	26
Tourism and Cultural Revenue Initiatives	32	58	35
Businesses participating in Non-Tourism Sectoral Strategies to benefit from substantial assistance (at least £2000 or 5 person days)	600	530	398
Man Years of Temporary Employment	600	91	25
Increase in Visitors by 2001	600,000	7,974,379	4,646,068
Increase in Annual Tourism Expenditure by 2001 - £m	86.8	176.54	57.79
Increase in Annual Non-Tourism Business Turnover by 2001 - £m	120.0	76.49	19.80
Impacts:			
Gross Jobs Created Through Tourism	4,370	5,661	2,435
Gross Jobs Created other than Through Tourism	2,400	2,490	1,839
Net Jobs Created Through Tourism	2,185	1,475	1,623
Net Jobs Created other than Through Tourism	1,104	2,047	1,638
Measure 3.3 Embedding the Benefits of Strategic & Sectoral Developments			
Anticipated Outputs			
Man years of employment initiative co-ordination	6.88	6.88	5.48
SMEs receiving substantial assistance (5days+/£2000)	160	160	100
No. of SMEs assisted	50	50	50
Anticipated Impacts			
£m additional turnover in SMEs by 2001	60	60	27.39
Gross additional jobs created	1,255	1,255	861
Net additional jobs created	995	995	486

Source: European Programmes Secretariat
[1] Forecasts and monitoring reports from approved projects

Priority 4: Community economic development COMMUNITY APPRAISALS AND CAPACITY BUILDING			
	Target	Forecast	Reported
Anticipated Activity:			
Assistance to be provided for community appraisals	70	23	32
Assistance to be provided for the preparation of packages of projects	40	24	19
Beneficiaries of non-training activities	1,365	-	-
Beneficiaries of training-based HRD activities	1,710	-	-
Anticipated Outputs:			
Community Appraisals completed	70	39	21
Community Action Plans (packages of projects) prepared	40	66	43
Clients to successfully complete guidance/counselling packages	1,365	-	-
Training beneficiaries to obtain NVQs/credits	855	-	-
Anticipated Impacts:			
No direct employment impact from this Activity - gross	-	218	39
No direct employment impact from this Activity - net	-	99	14
Priority 4: Community economic development COMMUNITY BUSINESSES AND JOB CREATION			
Anticipated Activity:			
Potential community businesses/co-operatives in CED areas assisted	200	110	45
- of which, led by under-represented groups	20	3	4
Existing community businesses/co-operatives in CED areas assisted	200	394	342
Non-training HRD ESF beneficiaries	420		
Training ESF beneficiaries	1,680		
Anticipated Outputs:			
Community businesses/co-operatives to have been established in CED areas	200	157	106
- of which, led by under-represented groups	20	4	4
Existing community businesses and co-operatives in CED areas to	200	394	342

have been assisted with expansion			
Clients to successfully complete Guidance & Counselling packages	1,680		
Training Beneficiaries to obtain NVQs/credits	840		
Anticipated Impacts:			
Gross jobs created	1,575	531	205
Net additional jobs created	655	480	195
Source: European Programmes Secretariat [1] Forecasts and monitoring reports from approved projects			

10.3 2000-06 Regional Operational Programme

The 2000-06 programme had a set of up to ten output and ten results indicators for each measure with considerable differences in indicators used between measures. To present this data in detail would require 14 tables. The summary statistics have been provided in a table inserted into the text, so the detailed achievements have not been included in this annex.

11. ANNEX IV: LIST OF INTERVIEWEES

Name	Position (current and former roles where relevant)	Place	Date	Form
Alan Clarke	CEO of One North East	Newcastle	9/2/12	Face to face
Peter Smith	formerly Government Office North East	Newcastle	17/2/12	Face to face
Prof Ray Hudson	PVC regional engagement, Durham University	Durham	15/2/12	Face to face
Phil Shakeshaft	formerly Northern Development Company and One North East	Sunderland	27/1/12	Face to face
Gillian Miller	Skills Funding Agency	Gateshead	10/2/12	Face to face
Oisin Macnamara	Northumbria University	Newcastle	27/1/12	Face to face
Alan Sanderson	Universities for the North East	Newcastle	8/2/12	Face to face
Prof John Goddard	University of Newcastle	Newcastle	2/12/11	Face to face
Kevin Richardson	Newcastle City Council, and formerly NE Chamber of Commerce and Tyneside TEC	Newcastle	2/12/11	Face to face
Jane Robinson	Gateshead Borough Council, and formerly Northern Arts	Gateshead	9/2/12	Face to face
Paul Callaghan	Entrepreneur, chair One North East	Newcastle	26/1/12	Face to face
Dawn Cranswick	Project North East	Gateshead	8/2/12	Face to face
Richard Clark	Project North East	Gateshead	8/2/12	Face to face
John Williams	formerly CEO of Fabriam and Centre for Advanced Industries incubators	North Tyneside	26/1/12	Face to face
Gordon Ollivere	RTC North	Sunderland	9/2/12	Face to face
Sheena Murray	RTC North	Sunderland	9/2/12	Face to face
John Lowther	Tees Valley Unlimited	Stockton	10/2/12	Face to face
Douglas Robertson	Newcastle University	Newcastle	15/2/12	Face to face
Suzanne Robson	Newcastle University	Newcastle	15/2/12	Face to face
John Rundle	interim CEO of Newcastle Science City, and formerly Government Office North East	Newcastle	16/2/12	Face to face
Jonathan Blackie	formerly Government Office North East	Newcastle	9/2/12	Face to face
Laura Woods	University of Teesside	Middlesbrough	10/2/12	Face to face
Iain Derrick	CLG ERDF Team	Newcastle	17/2/12	Face to face
Jamie McKay	Government Office North East (retired)	Newcastle	7/2/12	Face to face
Richard Harding	Former DG REGIO desk officer		9/3/12	Skype
Gordon Bell	Sunderland City Council	Sunderland	2/2/12	Face to face
Alec Fraser	Fraser Associates	Glasgow	22/2/12	Face to face
Malcolm Page	Sunderland City Council		29/2/12	Telephone
Alastair Smith	North East Finance	Newcastle	30/3/12	Face to face
Mark I'Anson	NEL		12/3/12	Telephone
Alasdair Greig	North Star Ventures	Newcastle	7/2/12	Face to face
Jessica Thompson	North Star Ventures	Newcastle	7/2/12	Face to face
Andrew Coles	FW Capital		10/2/12	Telephone
Susan Oliphant	Entrust		8/2/12	Telephone
Peter Gilson	Entrust		8/2/12	Telephone

12. ANNEX V: OVERVIEW OF SOURCES USED FOR THE CASE STUDY

Programme name	OP	AIR	FIR	Spend (by measure & year)	Evaluation reports	Strategic interviews	Operational interviews	External interviews	Stakeholder/ Beneficiary interviews	Workshop
1989-93 Durham Cleveland IDOP	Yes	No	No	No	Yes	Yes	Yes		Yes	Yes
1989-93 TAWSEN	Yes	No	No	No	No	Yes	Yes	Yes	Yes	Yes
1994-96 NE of England Objective 2 Programme	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
1997-99 NE of England Objective 2 Programme	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
1994-99 Northern Uplands Objective 5b Programme		Yes	Yes	No	No					No
2000-06 North East England Objective 2 Programme	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Urban II CI Programme for Hetton and Murton			Yes		Yes					
2007-13 North East Competitiveness and Employment ERDF Programme	Yes	Yes	NA	Yes	Yes	Yes	Yes	Yes	Yes	Yes

13. ANNEX VI: REFERENCES

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