



European Union

European Structural
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**European Structural and Investment Funds
2014 - 2020**

Growth Programme for England

ESI Funds Growth Programme Board

LEP Area ESI Funds Strategy Finalisation

Purpose:

To update the Growth Programme Board (GPB) on the finalisation of the LEP Area ESI Funds Strategies.

Recommendations:

The Board to confirm they are content for the Managing Authorities to write jointly to the local ESI Funds sub-committees confirming agreement of each ESI Funds Strategy once complete.

Summary:

As set out the paper to the March meeting Managing Authorities (MAs) have been updating local ESI Funds Strategies with the advice of partners to ensure consistency with the adopted ESI Funds Programmes; this work is now nearly complete.

As has been communicated to the GPB previously, the negotiation of the ERDF Programme did retain a large majority of the activity set out in the ESI Funds Strategies submitted in February 2014. The most significant changes arose because of:

- A 1-2% modification in ERDF - ESF split was required to ensure that the Programme made its contribution to the UK ESF minimum spend level;
- The removal of a separate ERDF Priority Axis (PA) for transport in Transition areas required that funding to be reallocated to the transport activity under the Low carbon Priority Axis 4;
- A tightening of criteria across the ERDF Priority Axes in relation to broadband (PA2), climate change (PA5), the environment (PA6) and Community Led Local Development (PA8); and
- The process for reconciling the LEP area PA allocations with the OP PA spending envelopes was a complex one. The consequence was that all areas saw some fluctuation in all their proposed PA allocations.

In the case of ESF the MA recognised that the OP had not satisfactorily captured local need and the MA has circulated revised ESF PA allocations which now do. The ESF OP will have to be updated accordingly.

Both ESF and ERDF outputs have been distributed on a pro-rata basis with both MAs looking to reflect local conditions. For example, where a LEP area did not plan to make investments under a specific investment priority they were not allocated any of the targets associated with it.

As regards EAFRD, LEP areas have reviewed their spending priorities and identified some minor adjustments to their priorities, shifting notional allocations away from Skills

investments and towards Broadband and Tourism investments. A small number of follow-up discussions are still underway in order to finalise Measure-level allocations in a few areas.

Once the GPB has provided its views and all revised ESI Funds Strategies have been successfully updated, the Managing Authorities will write jointly to the local ESI Funds sub-committees confirming agreement of each ESI Funds Strategy. The Managing Authorities' letter confirming agreement of the ESI Fund Strategies will set out:

- LEP area performance will be monitored against the allocations and outputs forwarded by the MAs and set out in ESI Funds Strategies, in line with the Performance Management Strategy Guidance;
- If an investment is proposed in the ESI Funds Strategy that is not consistent with national eligibility rules then it will not be supported; and
- The ESI Funds Strategies will continue to be updated during the period of the Programme, in the main, in response to MA initiatives to ensure successful performance of the national Programme. However, changes may also occur in response to a change in local economic circumstances.

Background

1. ESI Funds Strategies were developed in each LEP area between July 2013 – January 2014 to show the economic needs and opportunities of specific areas. They provided local detail to help to inform investment priorities and indicative actions within ERDF, ESF and RDP OPs and to support programme implementation. For ERDF and ESF, they also informed the choice of thematic objectives (which are broken down by Priority Axes in the OPs). As well as providing important local context for OPs, ESI Funds Strategies are a key source of information to inform project calls and funding applications and are used by partners to help provide advice on local strategic fit to the Managing Authorities on these activities. It is therefore essential that these strategies are up-to-date.
2. Following the adoption of the ESI Funds OPs last year, the Managing Authorities have been working with LEP areas to make ESI Funds Strategies consistent with them. This activity has been focussed and proportionate to ensure it concentrated just on those aspects of the ESI Funds Strategies that needed to be modified to ensure alignment with the OPs.
3. The Managing Authorities have been working with local partners over the last few weeks to draw this process of updating ESI Fund Strategies to an end.

Key Changes to ESIF Strategies from February 2014

ERDF and ESF split

4. The ERDF and ESF split in England forms part of the overall UK allocation within which a minimum amount has to be spent on ESF. The regulations on the minimum share were finalised after we commissioned ESI Funds strategies.
5. In order to achieve spend levels required by EU regulation; a very small re-calculation of ERDF and ESF splits in a number of LEP areas was required. This adjustment was in the 1-2% range and did not impact on the overall Structural Funds notional allocation in each LEP area.

ERDF Financial Allocations by Priority Axis

6. The process for reconciling LEP area and OP Priority Axes allocations was complex.
7. The main reason for changes to LEP areas' Priority Axes allocations were as a result of the negotiations with the European Commission. The main changes being:
 - The removal of a separate Priority Axis (PA) for transport in Transition areas required that funding to be reallocated to the transport activity under the low carbon Priority Axis 4; and
 - A tightening of criteria across the Priority Axes in relation to broadband (PA2), climate change (PA5), the environment (PA6) and Community Led Local Development (PA8).
8. The OPs assumed a certain level of Community Led Local Development (PA8) activity based on ESIF Strategies and discussions with local partners. However, a number of LEP areas who are potentially in scope for CLLD reduced from 12 to 9 LEP areas with, in some cases, different plans for ERDF and ESF. This has had an impact on LEP area allocations.
9. The process for reconciling the LEP area PA allocations with the OP PA spending envelopes was a complex one. The consequence was that all areas saw some fluctuation in all their proposed PA allocations. Flexibility in this exercise was also limited by the need to meet regulatory minimum spend levels.

ESF Financial Allocations by Priority Axis

10. The Operational Programme was based on the percentage split between thematic objectives in the financial information provided in local ESIF strategies. However, all of the delivery by the National Offender Management Service (who were given a top-slice of the programme before the notional allocations to LEP areas were done) also has to be funded from the social inclusion thematic objective, and the way this was handled in the calculations meant that there would have been lower sums for social inclusion available within LEP area allocations.
11. An initial set of detailed LEP area allocations, which were consistent with the OP, were issued in October. Following feedback from local areas, these were then revised in January 2016. This process also involved revisiting the assumptions at investment priority level, since that level of detail was not available in the original strategies, and the OP was therefore based on some interpretations and assumptions. The OP will need to be updated in due course to reflect these changes.

ERDF Performance Framework and Investment Priority Targets

12. The GPB agreed that Performance Framework and Investment Priority Targets should be distributed to LEP areas on a pro-rata basis.
13. Having done the exercise on this basis in September 2015 it was concluded that the Managing Authority should try to make the Targets more responsive to local areas' investment intentions. The Managing Authority therefore adapted the model for calculating LEP area targets to take into consideration:

- Investment Priorities – Where a LEP area did not plan to make investments under a specific investment priority they were not allocated any of the targets associated with it; and
- Financial Instruments – Where a LEP area was planning to do a level of FI investments that exceeded the level proposed for a PA in the OP then their outputs were adjusted accordingly.

14. This approach was not perfect and as such the Managing Authority is taking a pragmatic approach to monitoring progress against these targets. The detail of which is set out in the Performance Management Strategy Guidance.

ESF Performance Framework and Investment Priority Targets

15. The GPB agreed that ESF outputs would be distributed on a pro-rata basis. Accordingly, targets for the total number of participants in each Investment Priority were based on the share of the financial allocation in that IP which each LEP area has.
16. The ESF OP has targets for various sub-categories of participants as well as for the total number. Some of these (e.g. the male / female split) are worked out on the same basis as total participants, but for disabled people, ethnic minorities, the 50s, and lone parents, we have taken into account LEP level population information to adjust for the fact that these groups are not evenly distributed across the country.
17. The local results targets (which are expressed as a percentage of participants) simply replicate what is in the OP. There are no adjustments, although areas which do not have a financial allocation in an IP, do not have result targets for that IP.
18. The Performance Framework targets in the OP these are calculated as percentages of the total financial and output numbers. The same methodology has been used at LEP area level.

EAFRD Allocations and Outputs

19. As with other Managing Authorities, Defra has been working, both directly and through the Rural Payments Agency (RPA), with LEP areas to ensure alignment of their spending plans with the Rural Development Operational Programme. This has enabled LEP areas to adapt their strategic priorities in response to other Rural Development Programme for England (RDPE) investments by Defra in the shape of its LEADER and Countryside Productivity schemes.
20. LEP areas have made some minor redefinitions of their priorities, shifting allocations under the Growth Programme more towards Broadband and Tourism investments and away from Skills investments, in view of the extent to which ESF clearly meets a very broad range of rural skills investment needs.
21. There is a small element of EAFRD funding under the RDPE Growth Programme that is yet to be finally allocated to specific RDPE Measures following this exercise. The RPA is undertaking follow-up discussions with a number of LEPs and it is expected that this funding will be allocated in the areas of Business Development, Broadband or Tourism in the near future. As RDPE Growth Programme contributes to wider RDPE OP output targets, it is not expected that these relatively minor adjustments will have any impact on their delivery.

ERDF Financial Instruments

22. Based on the content of ESIF Strategies the ERDF Operational Programme originally proposed, that around £704m would be invested through Financial Instruments (FIs). Following the ESIF strategy refresh, and the completion of the Market Assessment element of the Ex-ante Assessments, we now expect around £510m ERDF to be invested through FIs, a reduction of 28% (£194m).
23. This is still a 20% increase on the £426m invested through FIs in 2007-13, and a 151% increase on 2000-06's £203m. The reduction is the result of a number of factors, including:
- Exchange rate fluctuations causing LEPs to reconsider their strategic priorities in light of reduced notional allocations;
 - Ex-ante assessments identifying a lower level of need than originally envisaged;
 - Changes in local strategic priorities due to changes in the economy e.g. cheaper borrowing on the open market;
 - Uncertainty of delivery with the advent of late EC Guidance on FI Selection, Preferential Remuneration, Management Costs & Fees.
24. Good progress is now being made to deliver these FI projects. It is estimated that by 31st March 2017, around 89% (£454m) of the £510m proposed, will be covered by a signed Funding Agreement enabling ERDF to be invested through to 2023. This will comprise of £285m by end Quarter 4 2016, and £169m by end Quarter 1 2017. The remainder will be approved in 2017 - 2018.

Governance – Intermediate bodies

25. Following the 2015 General Election, Ministers reviewed the approach to Intermediate Bodies. Ministers in DCLG, DWP and Defra concluded that they would consider proposals for devolution of European Structural Funds as part of a devolution deal with local areas. Agreement of IB status would need to be on a case by case basis, but the principles sitting behind a decision would be:
- The creation of an IB needs to be part of a devolution deal which demonstrates why this will support the delivery of the deal;
 - The IB will be a partial delegation (i.e. unlike the position in London);
 - The likely delegation will be for the IB to decide which projects fit local economic needs and opportunities;
 - The IB will also have a greater say than otherwise in calls, to ensure alignment with other devolution deal activities (but the MA remains responsible for publishing the calls);
 - Other aspects of decision making remain with the MA e.g. eligibility;
 - Other local partners must continue to be engaged, both by the IB, and the MA and this can be done via the existing local ESIF sub-committees;
 - The IB arrangements remain within the single Operational Programme. For example, national project selection criteria, and the performance management arrangements;
 - The regulations are such that the IB must be a corporate body. This is likely to be a local authority or combined authority;
 - The local body must be able demonstrate the capacity and capability to act as an IB;
 - The IB will continue to use the MA's business systems; and

- There will be a Memorandum of Understanding between the IB and the MA making clear which is responsible for each aspect of decision making and any consequences arising from those.

26. ESI Fund Strategies have been updated to ensure that the role of ESI Fund sub-committees is clearly set out along with how those arrangements are adapted in the case of a LEP area having intermediate body status.

ESI Funds Strategy Finalisation Letters

27. Once the GPB has provided its views and all revised ESI Funds Strategies have been successfully updated, the Managing Authorities will write jointly to the local ESI Funds sub-committees confirming agreement of each ESI Funds Strategy. The Managing Authorities' letter confirming agreement of the ESI Fund Strategies will set out:

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On-going Updates to LEP Area ESI Fund Strategies

28. There is scope for LEP area's allocations and outputs to change in the future as a result of ensuring the national programmes are being delivered effectively and efficiently. These could be either as a result of performance management measures or due to a revision of an ESI Fund Programme.

29. We will approach future changes as follows:

- Where changes are made to allocations or outputs but do not impact on the overall intervention logic of the ESI Fund Strategy then the respective Managing Authority will write to the appropriate local ESIF Committee informing them of the change;
- Where the changes do impact on the intervention logic then an addendum will need to be added to the Strategy and signed off by the appropriate Managing Authority; and
- The Performance Management and Dispute Resolution sub-Committee would be consulted on any changes prior to the Managing Authority sign off.

Next Steps

30. Once the GPB has provided its views and all revised ESI Funds Strategies have been successfully updated, the Managing Authorities will write jointly to the local ESI Funds sub-committees confirming agreement of each ESI Funds Strategy.

2 June 2016

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