



European Union

European Structural
and Investment Funds

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

Growth Programme for England

ESI Funds Growth Programme Board

ERDF Programme Delivery

Purpose:

To advise the board on progress with European Regional Development Fund (ERDF) Programme delivery to 30 June 2017.

Recommendation(s):

That the Growth Programme Board note the current position and the updated call schedule.

Summary:

Overall Progress on Contracting

As at 30 June, 441 projects with ERDF funding of £1181m have been contracted. Compared to the previous report, to 31 March 2017, this is an increase of 20 contracted projects, for an additional £40m ERDF. Overall, 42% of the programme budget has been contracted. Over half (54%) of the ERDF funds for the less developed region has been contracted; for transition and more developed regions, 36% and 42% have been contracted respectively.

Following closure of the March call in May, there are 299 applications currently being assessed for £653m ERDF (including 3 financial instruments). This represents 23% of funds allocated to England.

Overall Progress by Priority Axis (PA)

There has been some slowing in the rate of contracting this quarter, although there is £74m of projects that have had an investment decision, and therefore about to contract.

The final programme modification targets have been formally submitted to the European Commission and are now subject to formal approval following internal consultation. These finalised performance framework expenditure and outputs have been reflected in the report presented. Overall, the forecasts from projects already contracted suggest the programme will meet its 2018 performance framework targets for PA1 (all regions), PA2 (less delivered region), PA3 (less developed and more developed with transition regions), PA4 (less developed region only), and PA7.

Delivery risks remain for PA2 (transition and more developed regions), PA3 (transition

regions), PA4 (transition/more developed regions), and PA5 / PA6/ PA8 (all categories of region).

Overall Progress – Expenditure

The managing authority has reimbursed claims to the value of £119m, of which £70m came from three financial instrument draw downs.

Targets and Programme Performance

A new call for projects was issued in July for £166m including 3 sustainable urban development calls (SUDs) for £46m. Applications for most close in early September. Two further call rounds are scheduled in 2017 (September and November). Additionally a further call in March 2018 is proposed.

European Claim and Information Management System (E-CLAIMS)

The development of E-CLAIMS continues. The pilot exercise has been successful with 8 out of 10 applicants now using the system for the submission of claims and inputting of outline and full application information where applicable.

Programme Delivery Report

Project approvals (30 June 2017)

1. The number of projects legally contracted total 441 for an ERDF value of £1181m. Details of approved contracted projects are available on GOV.UK at:
<https://www.gov.uk/government/publications/european-structural-and-investment-funds-useful-resources>

Level of Contracting

2. The ERDF 2014 to 2020 Programme value is €3649m. Using the exchange rate of €1 = £0.78 values the programme at £2846m. This represents an increase of £16m following the programme modification. With £1181m contracted this represents 42% of the programme value. By category of region this represents: less developed 54%; transition 36%; more developed 42%.

Spend (N+3)

3. N+3 refers to the ERDF spend target required to be achieved by category of region. N+3 occurs in 2018 and annually thereafter. It is calculated as follows:

N+3	Less Developed	Transition	More Developed
2015 main allocation (€m)	€116	€273	€537
Less Pre financing to 2018 (€m)	€44	€104	€205
N+3 target for payment claims (€m)	€72	€169	€332
Less Payment applications to the Commission (€m) by June 2017	€ 1	€ 56	€ 66
Current gap (€m)	€ 71	€ 113	€ 266

4. The certifying authority submitted a second payment application in May to the European Commission. Total payment applications submitted amount to €123.77m.

Performance Framework Expenditure Target

5. Taking into consideration the finalised modification targets, the position is:
 - Forecasts are on track to achieve the expenditure targets for less developed region: PA1, PA2, PA3, PA4, PA7; transition regions: PA1 and more developed region: PA1, PA2, PA3
 - Delivery risks remain for PA2/PA3 transition regions ; PA4 (transition/more developed), and PA5 /PA6/PA8 (all categories of region),

Performance Framework Indicator Targets

6. Taking in to consideration the finalised modified targets, the position is:

- The less developed region needs to contract additional outputs under PA6 as does transition regions under PA4 and PA6, and more developed under PA2, PA4 and PA6.
- PA5 output target is set for 2023 only.

Financial Instruments

7. The programme has four financial instruments (FIs) contracted for £337m. Three of these made their first drawdown of funds in March and May. When issues relating to EIB match are resolved the fourth FI contracted will make its first draw down. There are 3 other financial instruments under development for £107m. These remain on track and expect to be contracted and have drawn down their first tranche of funds by December 2017.

Compliance

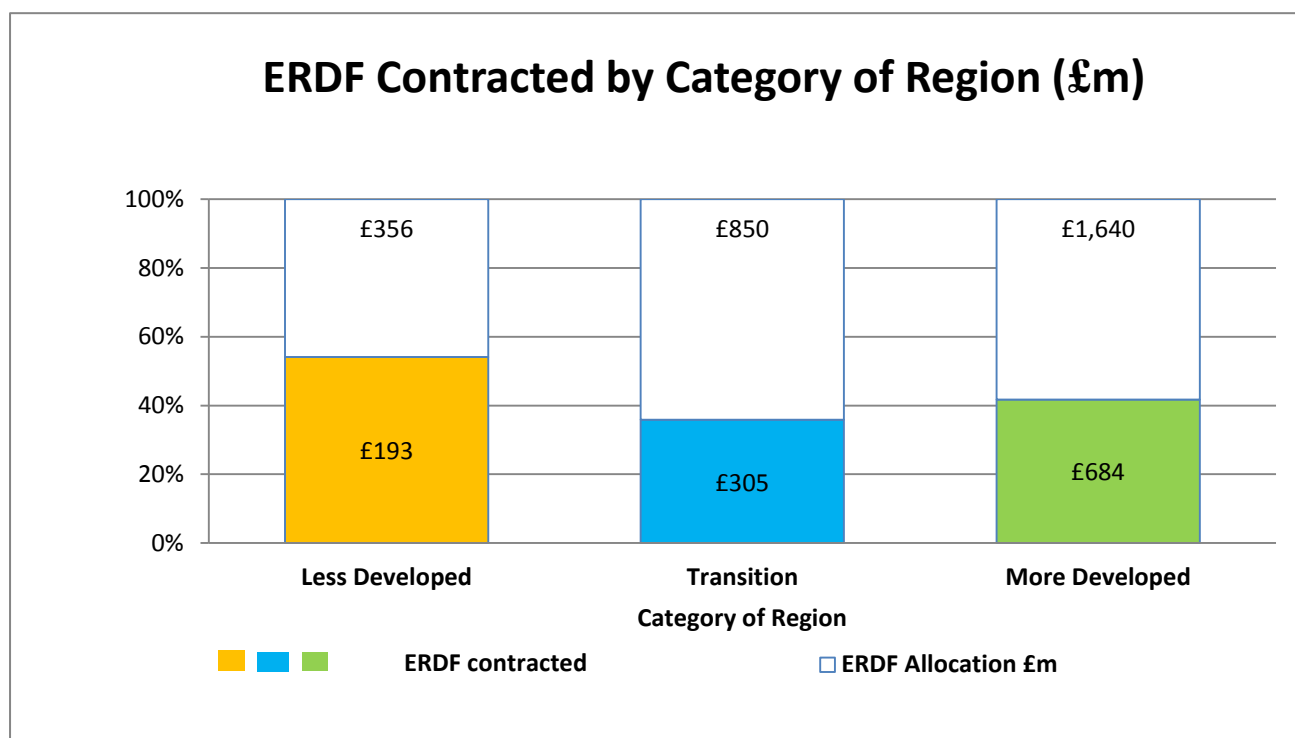
8. In 2016, 142 on the spot verification (OTSV) visits were undertaken. The total value of claims selected for testing was £32.5m. As a result, £1.9m of expenditure has been identified as at risk. One ECPA was submitted in 2016; 100% of claims within this were tested through OTSV.
9. Delivery of the 2017 schedule of OTSV visits commenced in February. To date 70 OTSV visits have been undertaken, £24,728,166m of claims tested. The amount identified as at risk currently stands at £41,843 with confirmed irregularities of £2,270.

European Claim and Information Management System (E-CLAIMS)

10. Development of E-CLAIMS, the new programme management and information management system, is well advanced. A programme of testing with external partners using the live system is currently in place with 8 out of 10 DCLG applicants now using the system in earnest to submit claims and input outline and full application information where relevant. Plans are being developed to bring on a further pilot group. Feedback will be used to inform the continued build of the system.

Programme Budget & Contracting

11. The total value of the England programme is €3,649m. Using an exchange rate of €1= £0.78 the value of the programme in sterling is £2,846m. The chart and table below shows the amount and % of ERDF funds that have been contracted by category of region compared with the programme's budget (or allocation).



12. As of 30 June, 42% of the budget has been contracted. Over half of ERDF funds for the less developed region have been contracted. For transition and more developed regions, 36% and 42% of funds have been contracted respectively.

Category of Region	ERDF Allocation £m	ERDF Contracted £m	ERDF Contracted %	ERDF Contracted & Pipeline %
Less Developed	£356	£193	54%	75%
Transition	£850	£295	36%	60%
More Developed	£1,640	£664	42%	64%
	£2,846*	£1,181	42%	64%

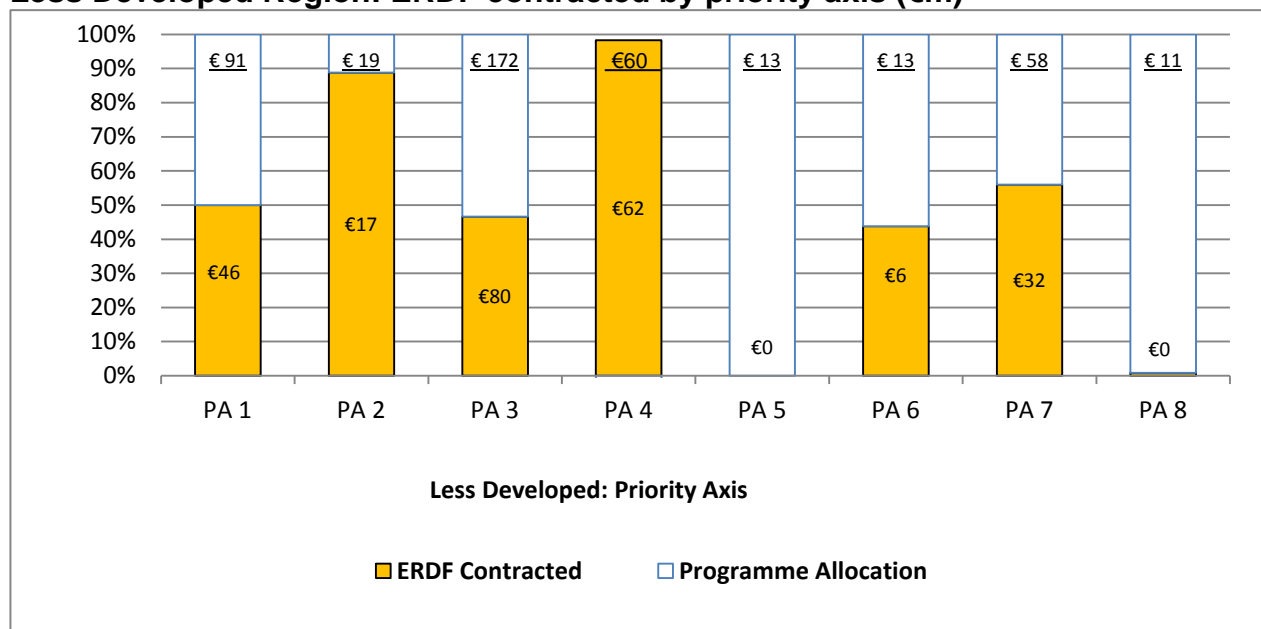
* Some further reallocation expected link to European Social Fund activity

13. The ERDF value of projects contracted and applications in the system amount to 64% of the programme budget (740 projects at £1835m). With an intervention rate of 80% the less developed region is generally performing well overall in this respect.

By Category of Region

14. The charts & tables below show the contracted % by category of region and priority axis.

Less Developed Region: ERDF contracted by priority axis (€m)



PA1 – half of the target now contracted and meeting milestone target.

PA2 - contracted to 89% of the programme allocation. No further project applications in the pipeline.

PA3 – contracting levels remain on target.

PA4 – this priority axis is now contracted against the modified programme allocation.

PA5 - no projects have been contracted. There remains a project for £2m with a funding agreement in development, and over £8m at full application stage. This represents a delivery risk. Discussions continue with the Environment Agency to prioritise activity.

PA6 – whilst contracting is currently on track against forecast, the applications at funding agreement stage need to be processed promptly to support the expenditure target. Outputs remain a concern. Demarcation issues with the countryside stewardship scheme (Defra) have impacted on activity coming forward.

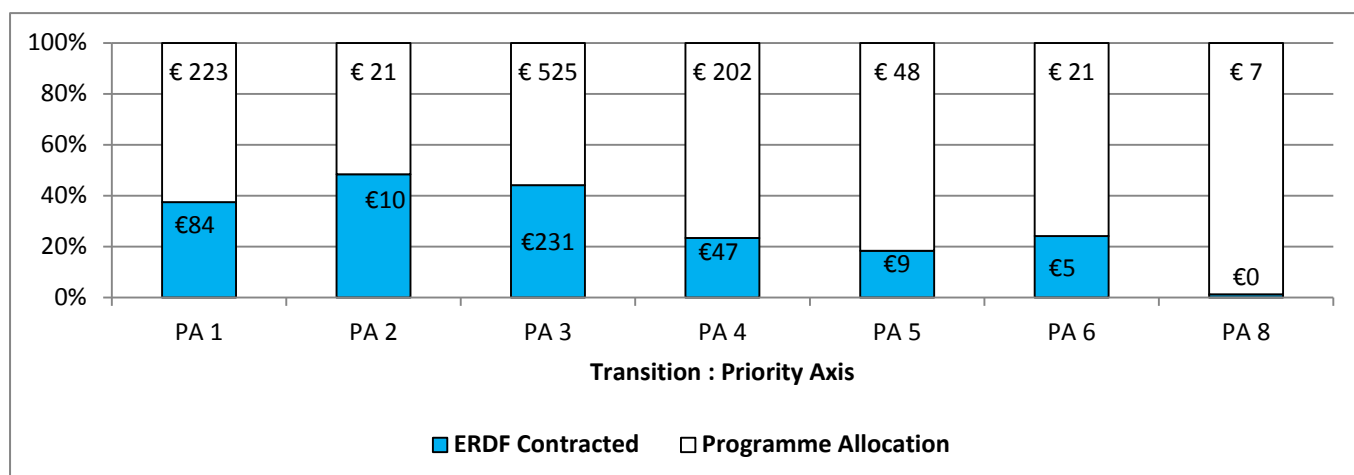
PA7 - is only open to Cornwall and Isles of Scilly as the less developed region. It focuses on improvements to road networks and transport infrastructure to reduce transport costs and travel time and facilitate a shift to a low carbon, sustainable transport network. Contracting levels are on track.

PA8 – close to £9m about to be contracted which will absorb the allocation.

Summary

Good progress overall. No real issues for the less developed region in relation to contracting levels apart from PA8 – community-led local development (CLLD) and under PA5. These concerns are not unique to this category of region.

Transition regions: ERDF contracted by priority axis (€m)



PA1 – contracting levels are on track to support the 2018 performance framework and output targets. The pipeline of applications is strong.

PA2 – contracting level is now on target. A further £8m at grant funding will shortly contract and support 2018 performance targets.

PA3 – despite some concern with contracting levels the PA is forecasting to be within 82% of the 2018 performance expenditure and 88% output targets. However there is little room for slippage so will require close monitoring.

PA4 - There remains a significant gap between the contracting targets and actuals. The low contracting levels are impacting on achievement of the 2018 performance framework targets. This is a significant delivery risk given the size of the programme budget allocated to the PA.

PA5 – contracting levels are behind target compared to forecast and 2018 performance expenditure targets look unlikely to be achieved. Discussions are underway with the Environment Agency to prioritise projects, which will improve the position somewhat.

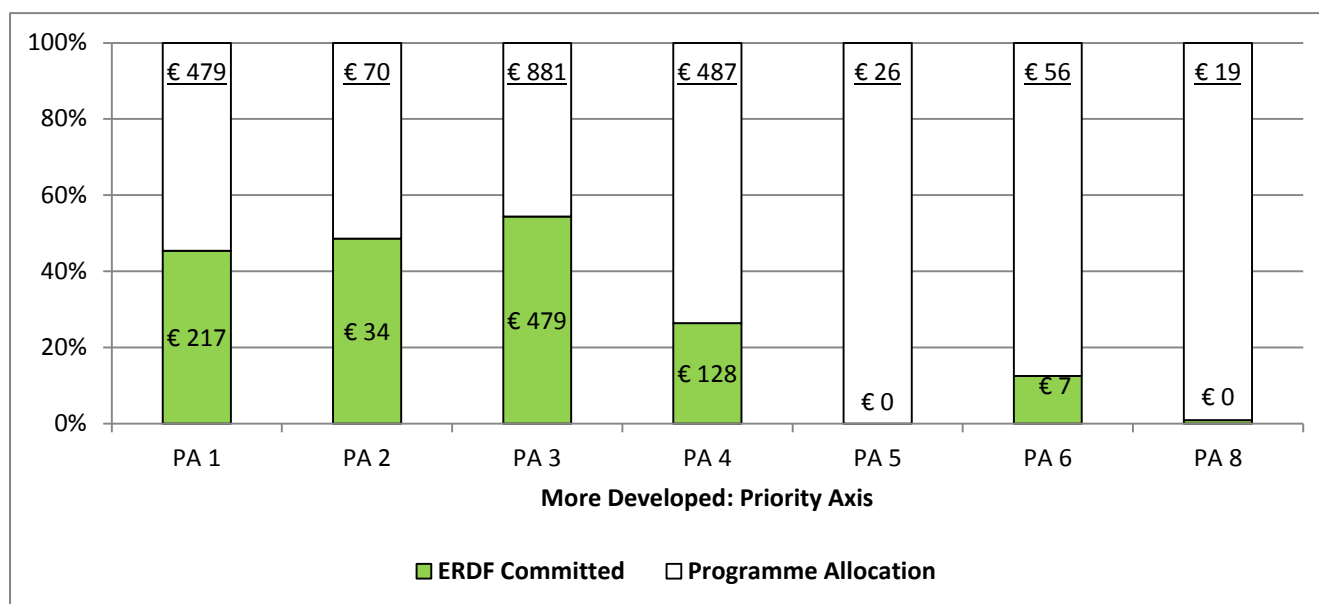
PA6 – contracting level is behind forecast. Delays in relation the Countryside Stewardship Scheme has impacted on delivery. Applications currently being processed will have little impact on the 2018 targets.

PA8 – there is significant delivery risk. The contracting of projects is subject to approvals from Department for Work & Pensions. On-going discussions to expedite decisions

Summary

Contracting levels in the transition region are currently insufficient, in relation to achieving 2018 performance framework targets for PA4, PA5, PA6 and PA8.

More developed region: ERDF contacted by priority axis (€m)



PA1 – contracting rates on target thereby support 2018 performance framework targets.

PA2 – contracting level on target.

PA3 – contracting level is below the forecast target however 2018 performance framework expenditure and output targets are on track.

PA4 – a significant delivery risk with contracting levels behind target which will impact on achieving 2018 performance framework targets.

PA5 – no contracts in place. Action planning is underway to identify priority pipeline applications that support improved performance under this PA in conjunction with the Environment Agency.

PA6 – contract levels below target. Action planning is underway to identify mitigations that support improved performance under this PA.

PA8 – there is significant delivery risk. Project contracting is subject to approvals from Department for Work & Pensions. On-going discussions to expedite decisions

Summary

Similar issues to transition regions. Current contracting levels are on target for PA1 and PA2 . The other priority axes are behind profile to a greater or lesser extent. Action planning is underway to mitigate and improve contracting rates for underperforming priorities.

N+3 Decommitment Rule

15. The Commission will automatically decommit funds for which it has not received an acceptable payment request by the end of the third year following approval of the operational programme.
16. The England OP was approved in 2015, therefore the budget stated in our operational programme in this year has to be defrayed by the applicant as eligible expenditure and submitted in a Payment Application to the Commission by 31 December 2018 (with adjustments made for pre-financing). This process then applies cumulatively to future years of the programme in the same manner.
17. The table shows the N+3 targets we need to reach in order to prevent decommitment of funds. Targets are set at category of region level and relate to ERDF only. The target is reduced by the value of payments submitted by the certifying authority to the Commission. Two payment applications to the Commission, totalling €123m, have now been made by the certifying authority.
18. N+3 is based upon the ERDF contribution towards total declared expenditure at the priority level intervention rate rather than the value of actual payments at the project level intervention rates.

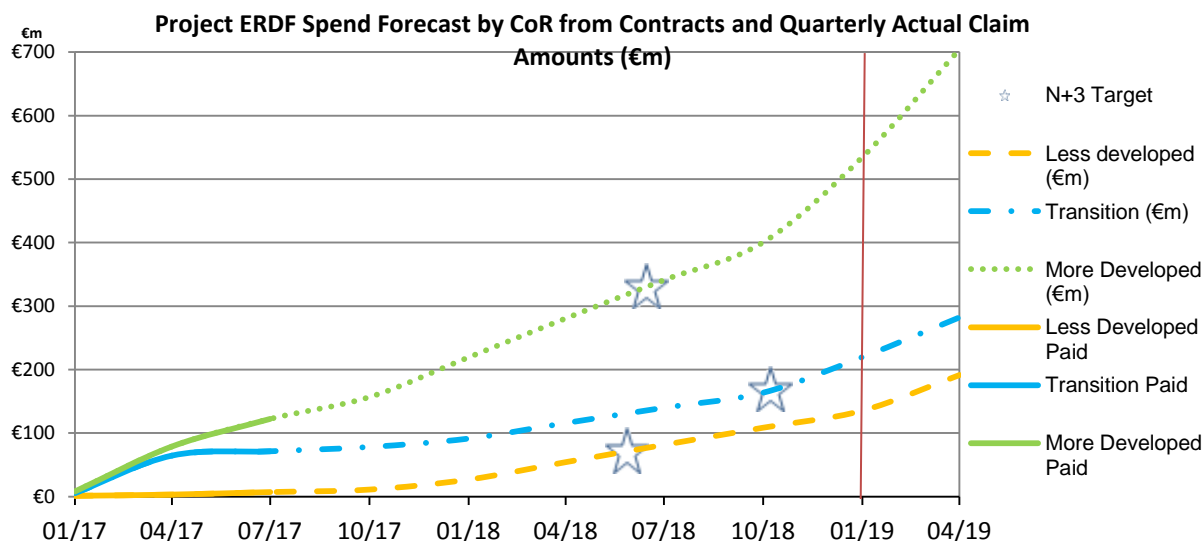
N+3 2018	Less Developed	Transition	More Developed
N+3 target for payment claims (€m)	€ 72	€ 169	€ 332
Less Payment application to the Commission to March 2017	€ 1	€ 56	€ 66
Current gap (€m)	€ 71	€ 113	€ 266
Indicator:			
MA level : Total eligible cost paid, per category of region, at programme level intervention rate (80%, 60%, 50%) less payment applications already made – June 2017	€ 5.81	€ 14.97	€ 56.27

19. The indicator at MA level, shown in the above table, states the value of claims paid by the MA not yet submitted to the Commission for reimbursement.
20. The current N+3 forecast analysis:
 - looks at claims paid
 - reduces project spend forecasts by 30% for non-financial instrument projects,
 - assumes that slippage will only be caught up at an average of 10% per quarter,

- assumes one drawdown from 7 financial instruments (4 contracted and 3 under development) to September 2018.

21. The chart below reflects the above provisos. Each categories of region will still meet their N+3 target. Compared to the previous quarter there has been some movement to the right.

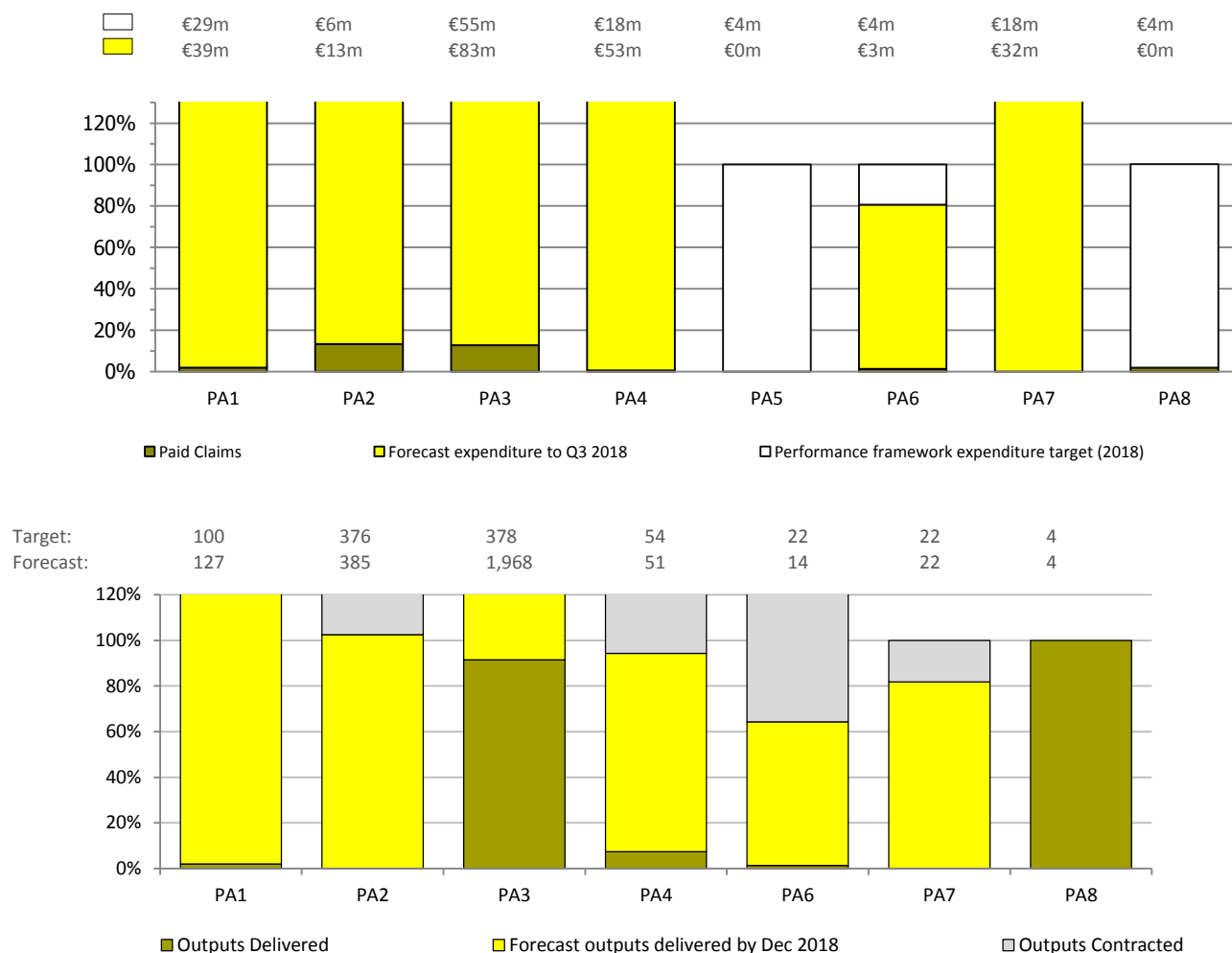
22. Analysis shows that projects are not meeting their quarterly spend forecasts. Projects in transition regions need close monitoring.



Progress against Performance Framework Expenditure Targets and Outputs

- 23. The targets in the charts reflect the modification targets to be achieved by December 2018. The targets are set at category of region level and by priority axis.
- 24. The Commission deems the individual target to have been met when 85% or above has been achieved.
- 25. The forecast expenditure from contracted projects has been reduced by 30% for all projects except financial instruments. The reduction is based on anecdotal evidence from the 2007-2013 ERDF programme for project expenditure slippage rates.
- 26. The forecast outputs from contracted projects have been reduced by 20% for all projects. The reduction is based on anecdotal evidence from the 2007-2013 ERDF programme for output slippage rates.
- 27. Claims paid and outputs delivered are now also shown on the charts.

Less developed region: forecast expenditure from contracted projects (less 30% non FIs) against 2018 targets including paid claims (€m)



PA1 – with a financial instrument draw down forecast towards the end of the year there are no concerns with meeting the target. Emphasis needs to be on supporting claim submissions and contracts meeting their spend profiles

PA2, PA3, PA4, PA7 - not a concern due to the level of forecast overachievement. Progress on claim submissions to be monitored closely. Emphasis needs to be on supporting claim submissions and contracts meeting their spend profiles

PA5 – zero contracts in place due to review of flood plans. This has impacted on spend forecasts. Working with Environment Agency to try to fast track applications

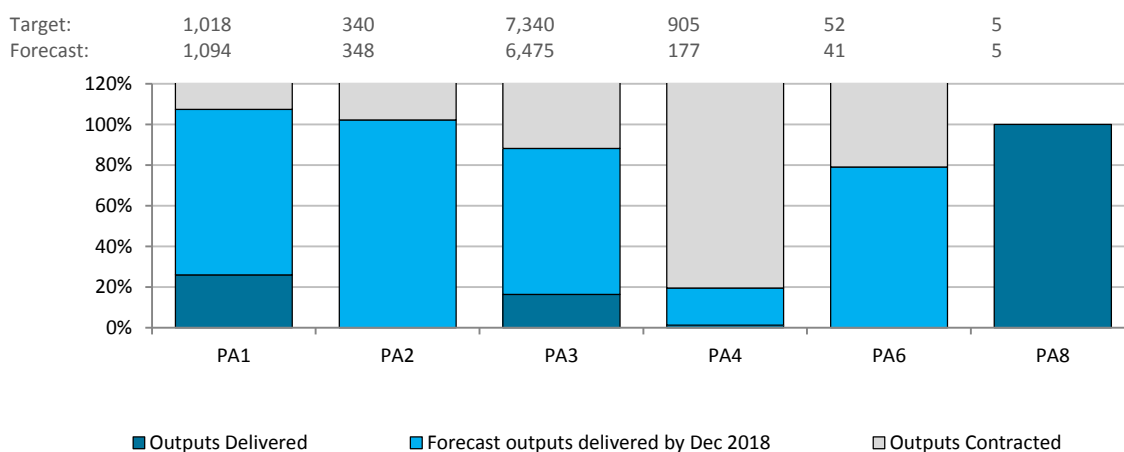
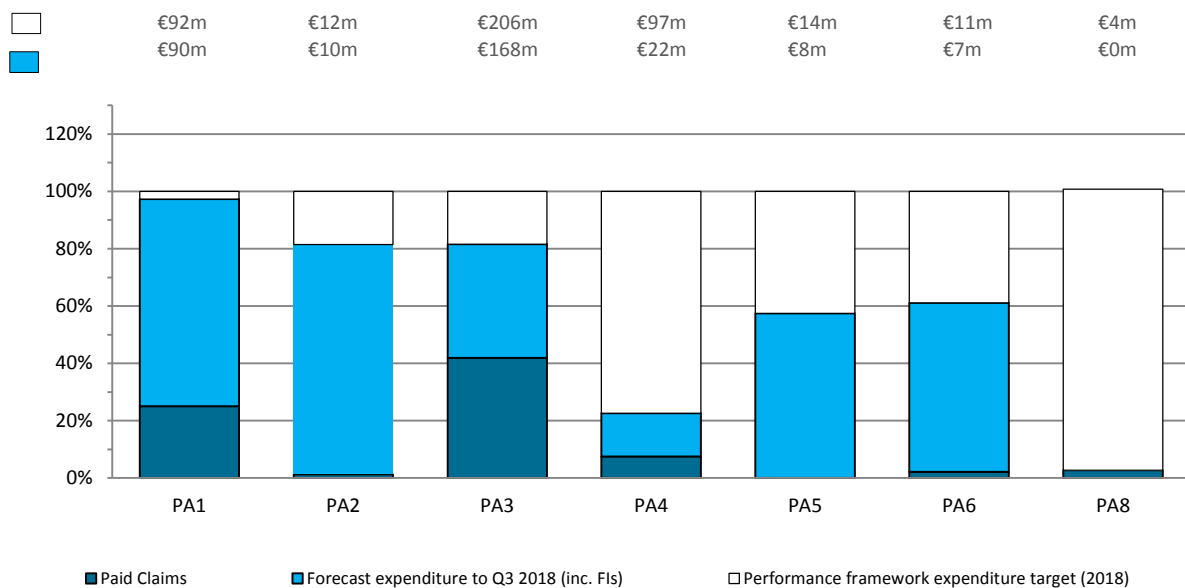
PA6 - below performance framework expenditure target from contracted projects but £2m at funding agreement stage which, with prompt contracting, will help support progress towards the spend target. Achieving the performance framework target for outputs looks challenging. Serious delivery risk exists

PA8 - delivery risk remains in relation to meeting the performance framework expenditure targets. On-going discussion with DWP on moving applications to contract.

Summary

No issues in relation to PA1, PA2, PA3, PA4 and PA7. PA6 needs close monitoring. PA5 and PA8 have significant delivery risks in relation to performance expenditure targets.

Transition regions: forecast expenditure from contracted projects (less 30% for non FIs) against 2018 targets including claims paid (€m)



PA1 - forecasting to achieve targets

PA2 & PA3 - prompt processing of project applications will improve the outlook. Need to monitor closely claim receipts in relation to expenditure and outputs

PA4 - Significant delivery risk given where applications are in the pipeline and target needing to be achieved by September 2018

PA5 - As part of the review of the operational programme activity will be widened to cover all LEP areas not just those identified in the operational programme. Delivery risk exists remain.

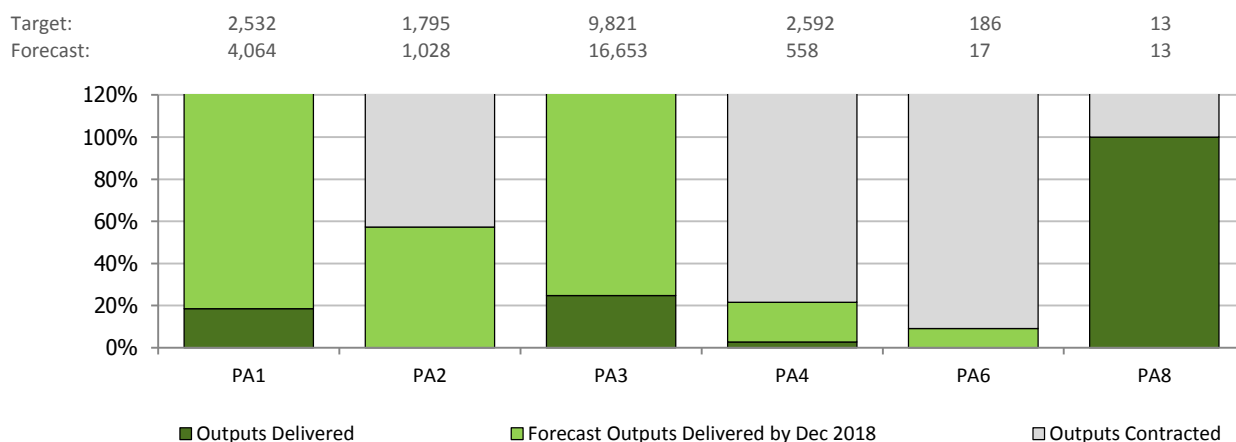
PA6 – achieving the expenditure target looks challenging given weak pipeline and outputs lag expenditure

PA8 - expenditure target reduced through the operational programme modification however still large looks ambitious given where applications are in the system. Once contracted, these projects will have little time to meet the proposed modification targets.

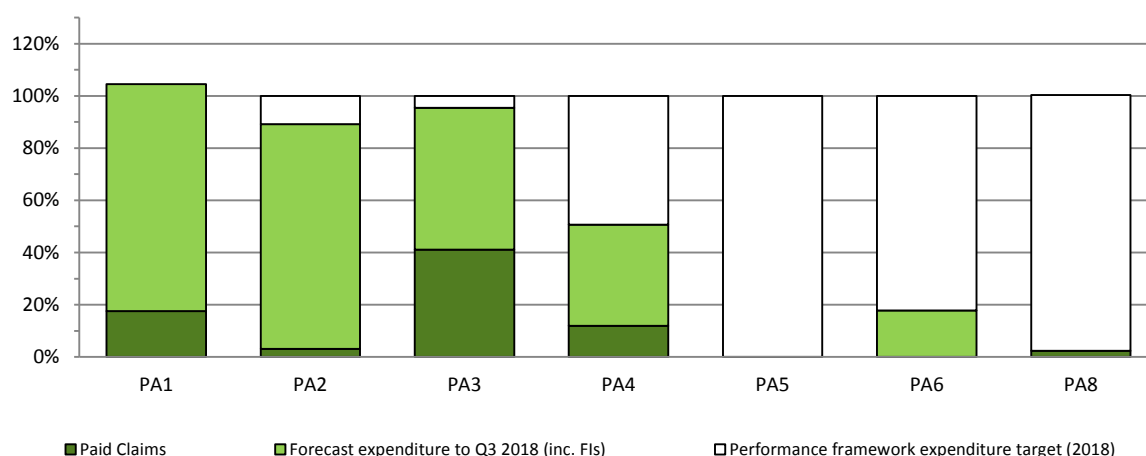
Summary

The transition regions are forecasting to achieve PA1 targets. PA2 and PA3 expenditure targets are slightly below target by a few percentage points. Significant delivery risks for PA4, PA5, PA6 and PA8.

More Developed regions: forecast expenditure from contracted projects (less 30% for non FIs) against 2018 targets including claims paid (€m)



□	€239m	€45m	€405m	€265m	€13m	€32m	€11m
■	€250m	€40m	€387m	€134m	€0m	€6m	€0m



PA1/PA2/PA3 - are forecasting to meet or be within 85% of the expenditure targets

PA2 –Outputs to be delivered from contracted projects need maximising.

PA4 – Significant delivery risk given where applications are in the pipeline and the target needing to be achieved by September 2018

PA5 - Delivery risk exists with no projects contracted. As part of the review of the OP activity will be widened to cover all LEP areas not just those identified in the OP

PA6 – significant delivery risk given where applications are in the pipeline and target needing to be achieved by September 2018. Limited contracting impacting on expenditure forecast due to demarcation issues.

PA8 - expenditure target reduced through the operational programme modification however still large looks ambitious given where applications are in the system. Once contracted, these projects will have little time to meet the proposed modification targets.

Summary

For more developed regions PA1 and PA3 are expecting to achieve the 2018 performance framework targets. PA2 needs close monitoring to improve the outputs position. All projects

need to monitor closely that all projects spending to profile. Significant delivery issues under PA4, PA5, PA6 and PA8.

Programme call schedule

28. The July call was launched in for £166m. A schedule of further calls is planned, as outlined in the table below. Additionally, a further call window is being considered in March 2018 closing on 20th April 2018.

Call window	Calls Published(tbc)	Call Closing Date (fixed calls)
July2017	July	8 September
Sept 2017	22 September	10 November
Nov 2017	25 October	12 January 2018

29. To note: intermediary bodies (IB) and strategic urban development (SUD) calls are not required to follow this schedule and are subject to local/GDT agreement.

Community-Led Local Development (CLLD)

30. CLLD investment is being taken forward in 6 Local Enterprise Partnership areas. A total of 21 local areas have been invited to submit applications for ERDF investment to deliver their CLLD strategy. To date 11 applications have been approved with the others progressing through the appraisal and approval process; decisions expected before end of September.

31. Based on the applications received the total ERDF investment in CLLD will be £29.1m, leaving an overall balance against modified OP allocations in priority axis 8 of £433k, 1% of the allocation.

COR	ERDF			
	LD	MD	T	Total
Stage 2 Full Applications	£8,717,000	£14,687,500	£5,403,139	£28,807,639
Stage 1 Development Funding	£72,000	£138,666	£62,799	£273,465
Total Stage 1 + Stage 2	£8,789,000	£14,826,166	£5,465,938	£29,081,104
OP Allocations €	€ 11,482,144	€ 19,437,824	€ 6,918,696	€ 37,838,664
Sterling value at €1 = £.78	£8,956,072	£15,161,503	£5,396,583	£29,514,158
Remaining Balance	£167,072	£335,337	(£69,355)	£433,054
	2%	2%	-1%	1%

32. No further rounds of CLLD calls are planned. The modification also reduces the output targets for priority axis 8; these revised targets can be achieved from the projects that are approved and in the pipeline. Performance framework targets in respect of approval of CLLD strategies have been met. Performance framework expenditure targets for 2018 will not be met; this reflects the timescales and funding profiles associated with CLLD

Compliance

33. The Commission requires an annual schedule of first level compliance checks to be undertaken by the managing authority (MA). The general principle of the A125 on the spot verification visit (OTSV) is to test that ERDF projects and financial instruments (FIs) are delivering their contracted requirements, in accordance with the regulations as set out in the Council Regulations (EC) 1303/2013 and identify any potential areas requiring correction. The work undertaken by the Compliance team provides assurance to the Commission whilst reducing the impact of irregularities on the MA error rate.

Visits Undertaken (2016 OTSV Schedule)	Value of claims selected for testing	Amount Tested	At Risk	At Risk %
142	£ 32,477,128	£ 22,678,584	£ 1,973,904	6.08%

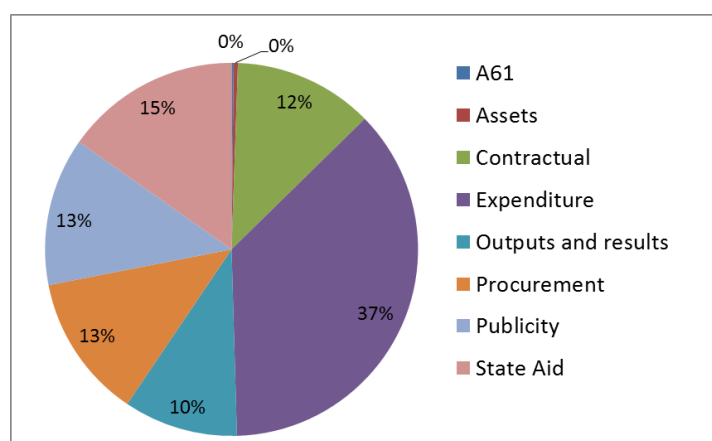
Visits Undertaken (2017 OTSV Schedule)	Value of claims selected	Amount Tested	At Risk £	At Risk %
70	£24,728,166	£17,331,869	£807,865	3.27%

Progress on OTSV visit actions

	Number of actions raised	Number of actions closed	Actions open	Actions open more than 3 months
2017	545	453	92	34
2016	413	380	33	21

34. Monthly analysis of A125 visit actions is undertaken. Patterns and trends are identified and this is fed back into the business process; sharing lessons learnt and taking action to address areas of non-compliance.

35. Actions to date broken down by category



Category	Total to date	Trend
A61	1	↔
Assets	2	↓
Contractual	66	↑
Expenditure	201	↑
Outputs and	54	↑
Procurement	68	↑
Publicity	70	↓
State Aid	83	↓
	545	

E-CLAIMS (European Claim and Information Management System)

36. E-CLAIMS is the new purpose-built information management system for the English ERDF and ESF 2014 to 20 programmes. Its development is well advanced. The functionality currently available allows Growth Delivery Team (GDT) colleagues to input information in relation to the assessment and appraisal processes, as well as claim information relating to individual projects.
37. There is more work to do, such as enabling the system to pay claims, before the system can be fully rolled out to all external partners. Further testing with a pilot group of external partners has taken place with plans in train to bring on a further group in the near future. There will be a full system roll out later on in the year.
38. A communications package will be available prior to full roll out, which will set out how to access the system; how it works and who to go to for support.