

## **Lancashire Enterprise Partnership Limited**

**Private & Confidential: NO**

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## **European Structural & Investment Funding – Pipeline Development and Project Calls**

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### **Executive Summary**

The report sets out the latest position on the development of Lancashire's European Structural and Investment Funds (ESIF) Strategy, in particular

- Operational Programme and Lancashire ESIF Strategy Approval
- Future organisation of the Lancashire ESIF partnership
- Project calls/launches
- Project pipeline development

### **Recommendations**

The LEP Board is asked to note the progress set out in this report and the on-going delays in developing new Financial Engineering Instruments, as highlighted in section 5.

## **Background and Advice**

### **1. European Structural and Investment Funds Operational programmes and ESIF Strategy Approval**

1.1 As reported at previous meetings the Government has established a National (England) Growth Programme for EU funding over the period 2014-20 giving Lancashire having a notional allocation of £231m. The allocation is split approximately £137m from the European Regional Development Fund (ERDF), £90m from the European Social Fund (ESF) and £4m from the European, Agricultural, Farming and Rural Development (EAFRD) Fund. The Growth Programme was due to commence in January 2014.

1.2 The national Operational Programmes for each of the funds are managed by a National Growth Committee and the programmes themselves are administered through national processes, with local input via LEP Area ESIF Strategies. In Lancashire, the ESIF Strategy was developed on behalf of the LEP and is now

being implemented through a Lancashire ESIF Partnership made up of a range of local stakeholders, including LEP Board members.

- 1.3 It has taken longer than expected for each of the ESIF Operational Programmes to be agreed, with the final one, the European Social Fund, only being approved by the European Commission in September 2015. As a result it is now possible for local ESIF Partnerships/Committees to be integrated into the national governance structure as formal sub committees of the national Growth Board.
- 1.4 The main changes from current arrangements will be that:
  - Lancashire's ESIF partnership will now be serviced by the Department for Communities and Local Government (DCLG), rather than the County Council on behalf of local partners,
  - Local partners/the LEP will no longer be able to draft and submit papers for the Partnership to consider, and
  - DCLG will become Deputy Chair of the Partnership (now subcommittee).
- 1.5 The national Growth Board will also start to formally approve LEP area ESIF strategies based upon the approved Operational Programmes. The main changes required before approval are ensuring the strategies are technically compliant and including the Outputs and Outcomes required to be delivered. The ESIF partnership is part way through this process with the Strategy currently being reviewed to ensure compliance, which will mean removing references to ESIF support for Transport as this is no longer eligible activity.<sup>1</sup>
- 1.6 However, at the time of writing, no LEP, or programme, level Outputs have been issued making it impossible to assess whether they are realistic and/or finalise local financial priorities. Given the Outputs were originally due to be issued by end of August 2015, it is not clear whether there will be time to fully review the strategy before the deadline for final submission of 23<sup>rd</sup> October 2015.
- 1.7 The ESIF partnership has agreed to hold an event for local partners early in November 2015 to update on the revised Strategy and for the Managing Authorities for each of the funding programmes to present the detail of the ESIF Strategy Implementation process.

## **2. First Round ESIF Calls**

### *European Regional Development Fund (ERDF)*

- 2.1 In March 2015, prior to General Election Purdah, the Lancashire ESIFs Partnership agreed for a number of ERDF Business Support calls to be issued related to national products;
  - Manufacturing Advisory Service

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<sup>1</sup> Support for Transport activity was originally included in the ERDF Operational Programme as being eligible across England. However, the final version of the ERDF Operational Programme only allows this activity to be undertaken in Cornwall (as had been expected).

- Growth Accelerator
- UKTi

As well as the continuation of BOOST, the Lancashire Growth Hub

- 2.2 The Outline Applications submitted in response to the calls were considered at Lancashire ESIF Partnership in September 2015. All the Outline Applications received were technically appraised by DCLG and agreed by the ESIF Partnership as being able to move to full Application Stage. Annex A to this report sets out the applications and initial comments/clarifications that the project promoters were requested to address in the Full Applications. The Full Applications were submitted to DCLG on 11<sup>th</sup> September 2015 and the detail of which, along with recommendations to fund or not, are likely to be considered at the next meeting of the Partnership on 4th November 2015.

#### *European Social Fund (ESF)*

- 2.3 In addition the ESIF Partnership also agreed, prior to General Election Purdah, to issue a call to facilitate the Blackpool Mental Health Trailblazer project. Only one project was received in response to this call, from Blackpool Borough Council, and the ESIF Partnership agreed that the application could move to Full Application Stage.

### **3. Pipeline Development**

- 3.1 In July 2015 the LEP held a Funding for Growth event to bring together a range of local partners from different sectors to discuss possible projects that could be supportable by ESIF Funds. The event built upon review of projects that had been undertaken to look at range of activity being developed. In response to the review over 100 project ideas were submitted requesting over £270m of ESIF funding broken down as follows;

ERDF - £228 m requested (against an allocation of £137m), of which over £160m for capital

ESF - £41m requested (against an allocation of £90m)

- 3.2 Very clearly the Lancashire ERDF allocation will be overbid if all the ideas submitted are eligible, especially when the review did not include previously agreed indicative allocations to the Evergreen and North West Loan Funds (Financial Engineering Instruments) of approximately £25m. In addition, some ESF resources for Lancashire has already been utilised through a £7.5m allocation for the BIG Lottery Opt In, and indicative allocations for the SFA and Local Impact Fund Opt Ins (£40m and £5m respectively).
- 3.4 The activity that Lancashire partners wished to focus projects on were in the main support for SMEs and Research and Innovation, but through capital rather than revenue activity. In the ESIF programme support for capital investment will be limited and will not support some of the site development activities supported in previous European programmes. All capital build will need to align directly with business support and innovation delivery.

- 3.5 Regarding the ESF projects submitted there is a danger of project duplication, and one approach might be to look at how different project ideas can come together to increase impact and reduce costs. In particular, any ESF activity wishing to be supported under an Open Call should have first considered whether a more appropriate funding route would have been through an Opt In such as the SFA, BIG Lottery or DWP.
- 3.6 Since the review was undertaken detailed guidance of the type of outputs required to be delivered by the ESIF has been issued (September, 15), although still with no detail on volumes, and it would be sensible for partners to revisit their project proposals based upon this detail to see if they are still realistic and eligible. As indicated earlier the ESIF partnership is proposing to hold an event for local partners in November to refresh and update on the ESIF Strategy and this will be built into the event preparation.

#### 4. Planned and Future Calls

- 4.1 At its last meeting, and based upon an initial analysis of the review of possible ESIF projects, the ESIF partnership proposed to DCLG that a number of calls be issued later this year in support of HE related business support and innovation activity, especially in support of Growth Deal objectives. To this end the Partnership agreed the following ERDF calls, subject to detailed agreement with DCLG.

**ESIF Thematic Objective 1** – Research & Innovation (indicative allocation £25m)

Supporting Capital investment for HE related infrastructure/facilities linked to Growth Deal objectives

**ESIF Thematic Objective 3** – SME Competitiveness (indicative call allocation £13.5m)

Capital Investment for HE related infrastructure/facilities linked to Growth Deal objectives

Revenue Investment for HE related business and graduate support linked to BOOST

**ESIF Thematic Objective 4** – Low carbon (Indicate allocation 35m)

Revenue Investment for HE related business support on the Low carbon economy, linked to BOOST.

- 4.2 In addition the Partnership agreed for an EAFRD call to be issued by the end of September in support of existing, and to grow new, rural micro and small businesses with key outputs around business growth and job creation. The call is worth 420,000.

## 5. Next Steps

- 5.1 The Managing Authorities for each of the ESIF programmes will now work with the Lancashire ESIF Partnership (as a subcommittee of the National Growth Board) to develop detailed Implementation Plans. The Plans will be based upon national drivers for expenditure and output achievements but informed by the local context, through the ESIF Strategy, knowledge and project availability.
- 5.2 LEP officers will be working with the project proprietors who submitted project proposals to identify those projects that are eligible and also integrate those with a focus on similar objectives to improve impact and value for money. These can then be used to inform the ESIF partnership in developing call timetables and in overseeing the delivery of the ESIF programme in Lancashire including performance management of project delivery and outcomes.
- 5.3 In addition, officers have been working with the existing North West Fund, as well as other interested organisations, to develop as appropriate project to address the need for loan finance for eligible SMEs in Lancashire. Currently, the ESIF partnership has set aside £12.5m to invest in a loan fund (Financial Engineering Instrument) proposal for Lancashire.
- 5.4 At present, the options to bring forward FEI instruments that would support lending to businesses in the North West are struggling to move forward at a pace that would ensure a continued provision of lending. Whilst Lancashire is partially insulated by its own lending products such as Rosebud, there is a genuine concern that the momentum and pipeline of projects from the North West Fund will be lost. There are two potential models for future delivery of the fund each with their own strengths and weaknesses. The options are:-

*A Northern Powerhouse Fund* – combining existing operations in the North West, Yorkshire and Humber and the North East regions. This would be led and commissioned by the British Business Bank, who would define the composition of the funds (balance of loan to equity, early stage vs. mature business investments, sector vs. generalist, etc.). This proposal has the potential to move forward more quickly as the BBB are designated as a "trusted-entity" by Government and the EU and could therefore progress immediately to the procuring of individual fund managers. The size of the fund would also offer economies of scale on fund management costs. There is however a cool response to this proposal from a number of northern LEPs, especially in the North East, who see a combined fund as removing local autonomy and potentially focusing fund activity on areas of the highest business density.

*A new North West Fund* – mirroring the current arrangement. The shape of the fund would still be set externally to satisfy the European Investment Bank (EIB) who are the match funder to the local ESIF contribution. The existing North West Business Fund – the fund of funds manager, needs itself to be procured and hence adds a further round of delays to the establishment of new lending.

The Board will be kept advised on on-going developments on forming a new FEI relevant to the objectives of the LEP.