



Lancashire Enterprise Partnership Limited

Private and Confidential: No

Tuesday, 31 January 2017

European Structural and Investment Funds - Post Autumn Statement 2016 Update

**Report Author: Sean McGrath, Tel: 01772 531053,
sean.mcgrath@lancashire.gov.uk**

Executive Summary

The LEP Board is asked to note the contents of the report, including current commitment levels and 'at risk' ESIF resources. In particular the Board is requested to consider;

- I. the issues related to the European Social Fund (ESF) capacity, as detailed in paragraphs 2.4 to 2.8,
- II. the broader issues related to the future of the ESIF programme and the need to plan for a successor programme(s) as highlighted in Section 3, and
- III. whether, in the light of the Building Our Industrial Strategy Green Paper, to lobby Ministers directly to raise the issues contained in the report.

Background and Advice

1. European Structural and Investment Funds 2014-20 Implementation

1.1 The Government established a National (England) Growth Programme for EU funding over the period 2014-20, overseen by a National Growth Board. The Growth Programme is based upon an UK wide agreement with the European Commission (EC) until 2020.

1.2 The Growth Programme includes the European Regional Development Fund (ERDF), European Social Fund (ESF) and a proportion of European Agricultural, Farming and Rural Development Fund (EAFRD). The EU Growth Plan is worth approximately £5bn in England, with Lancashire having an indicative allocation of £216m (6th largest allocation in England); this figure includes the impact of the last Exchange Rate review and additional resources, circa £4m, added to the programme following a statistical review conducted by the EC.

1.3 To access this funding all LEPs submitted a European Structural and Investment Funds (ESIFs) Strategy linking key local priorities to national Operational Programmes. The delivery of the ESIF programme remains in the control of three Government Departments managing the key Operational Programmes, namely:



- ERDF – Department for Local Communities
- ESF – Department for Work and Pensions
- EAFRD – Department for the Environment, Farming and Rural Affairs

The Government has indicated, post the EU Referendum, that all project applications will be reviewed against UK domestic priorities and an enhanced value for money criterion. As yet it is not clear how this will happen or the possible impact upon current and future projects.

- 1.4 LEP area sub-committees of the National Growth Board provide advice on calls, project assessments (local strategic fit) and performance management as well as overseeing project pipeline development. In Lancashire, this work is undertaken by the Lancashire ESIF Committee which reports to the National Growth Board.
- 1.5 Lancashire's original allocation was £231m but because of Exchange Rate fluctuations this has reduced to £216m; ERDF £126.48m, ESF £86.32m, EAFRD £4.2m, of which only £203m (94%) can be committed (the remaining funds can only be accessed when Performance Reserve targets are met). The £216m includes £4m allocated to the programme as part of a statistical review undertaken by the EC.
- 1.6 In order to draw down the ESIF allocation project providers need to provide a minimum of 40% of match funding which, at the current exchange rate, makes the programme worth at least £360m.
- 1.7 In response to the allocation of finances and targets to Lancashire ESIF programme, the ESIF Committee felt that some did not meet Lancashire's economic needs and/or were not achievable. It was agreed that
 - the allocation to the Research and Innovation priority was too small given Lancashire's aspirations in this area and priorities set out in the ESIF Strategy (the Lancashire allocation was below the national average)
 - the targets for the ICT priority did not consider Lancashire's progress on the delivery of Superfast Broadband Infrastructure (current coverage at 97% and increasing)
 - The allocation to the Low Carbon priority was too high (above the national average) and should be swapped to the Research and Innovation/Climate Change (Flood Mitigation) priorities to support projects of greater local significance.
- 1.8 At the request of the Government all LEPs have recently submitted proposals to be included as part of the Programme Modification negotiations that will start later in 2017. This will involve the UK Government seeking agreement with the EC on changes to the National ESIF programme including outputs (volume and type) and financial allocations between priorities and eligibility rules.
- 1.9 On the basis of the issues highlighted in paragraph 1.7 above the Lancashire Programme Modification submission proposes that;



- The additional £2.4m for the ERDF programme, resulting from the statistical review, be added to the allocation for Priority 1 Research and Innovation taking the full allocation up to £15.36. This to support existing and any future priority activity in this area, with a focus on advanced manufacturing and industrial performance priorities.
- That any Priority 2 ICT call focus on businesses/enterprises supported outputs rather than Superfast Broadband Infrastructure given current, and planned, coverage in Lancashire and the restrictive nature of the funding criteria, i.e. businesses need to be ERDF eligible and have broadband speeds of below 2Mbps.
- A reduction in the resources allocated to Priority 4 Low Carbon to put the Lancashire programme on par with the national Low Carbon allocation per LEP
- An increased allocation for Priority 5 Climate Change (Flood Mitigation) to better reflect the Lancashire's issues and the strong pipeline of activity that will support and protect businesses and homes (worth up to £10m)

Civil servants indicated at the last ESIF Committee, held on 12th January 2017, that there was no timescale for the Government to consider or agree the proposals. In addition, there is no guarantee that any of the proposals will be included in the national proposal to be put to the EC and neither has any guidance been issued as to how the possibly conflicting proposals of 38 LEPs will be managed.

2 Current Position of the ESIF programme

- 2.1 The Lancashire ESIF Committee has overseen a number of calls since the ESIF programme was launched and has recommended for approval approximately £92m of activity, some 42% of the programme.
- 2.2 Where Government has issued contracts it has been for up to 3-years, not the full length of the programme to 2020. Most recently the Department for Work and Pensions (DWP) has been proposing that ESF projects can deliver until December 2019 with financial completion by March 2020. The Department for Communities and Local Government (DCLG) has indicated that additional approved projects will still receive 3 year contracts, which, for the later calls could see projects being able to deliver to December 2019 and beyond.
- 2.3 The Lancashire programme was operating above national expectations and its performance was in the top third of all 38 LEPs as of autumn 2016. However, delays in issuing calls may have impacted on this position. In the case of the ERDF programme five calls had been waiting to be issued since September 2016 and were not issued by the Managing Authority, DCLG, until December 2016. The calls are;



Priority	Call Value
Research and Innovation	£12.5m,
ICT	£5.94m
Low Carbon	£7.00m
Climate Change (Flood Mitigation)	£3.10
Environment and Energy	£1.79m
Total	£33.32m

Should the Lancashire Programme Modification proposals be agreed it would mean additional resources for Flood Mitigation activity and the delivery of the Enterprises Supported output in Priority 1 (Research and Innovation).

- 2.4 In the case of the ESF programme calls have been waiting to be issued since July 2016 but delays by the Government's Managing Authority, DWP, means that these have still not been issued. Despite being pressed at the last ESIF Committee DWP will still not guarantee to issue the outstanding Lancashire calls as they will be subject to a further prioritisation process (for which the criteria are not available but is likely to be linked to poor performance and DWP capacity). It should be noted that DWP has issued 20+ calls across the country since September 2016 in areas where the ESF delivery performance was not as good as Lancashire's
- 2.5 The latest Government advice is that the call related to Training Capacity in SMES may be issued by the end of January 2017. However the other calls (Widening Participation and Leadership & Management) do not have a timescale for being issued.
- 2.6 Perversely, it appears that Lancashire's initial success in committing ESF resources to projects is now being used as a reason for not issuing calls. The delays in the ESF programme are putting Lancashire priority activity at further risk as there could be an impact upon the availability of match funding and capacity within delivery organisations should these delays continue.
- 2.7 Originally the Lancashire ESIF programme had intended to deliver £41m of ESF activity via the Skills Funding Agency (SFA) Opt In mechanism. An Opt In allows for an organisation such as the SFA to pre match ESF resources and then procure output delivery via its own processes.
- 2.8 As a result of changes in the future delivery of skills funding, including the impact of Combined Authorities and Devolution Deals, the SFA can no longer match the full ESF amount. Thus, £13.7m of ESF is now no longer committed and, if it is to be delivered, will need to access match funding from other sources. This is in addition to the additional £2m allocated to the ESF programme based on the statistical review. This issue has been considered by the ESIF Committee and work commissioned by the Lancashire Employment and Skills Board to gain a better understanding of possible options. This will be reported back to the ESIF committee in March 2017.



As with the delays in issuing ESF calls, the uncertain future of the SFA, and related match funding, will make it harder to deliver national and local skills priorities.

- 2.9 The first EAFRD calls were issued in November 2015 and, at the time of writing, £382,000 worth of projects have been contracted. Further calls, worth £1.75m, supporting Tourism Infrastructure and Food Processing activity were issued on 26th January 2017. Discussions related to a possible rural Superfast Broadband call are due to take place in February 2017.

3. ESIF Programme Risk/Forward Planning Issues

- 3.1 There has been limited formal guidance from Government on the impact of the EU Referendum other than suggestions to carry on with "business as usual" with a degree of re-assurance offered by the recent Autumn Statement which indicated that contracted projects would have their funding guaranteed even after the UK leaves the EU.
- 3.2 Given the issuing of new ERDF calls, it can be assumed that projects funded post Autumn Statement will have their funding guaranteed. Indeed, the current guidance is that project contracts will be for a maximum of 3-years which could take projects to December 2019. Unless supplementary guidance is issued the ESIF programme is still planned to deliver until 2020 with the full indicative allocation available (although possibly under a different funding stream).
- 3.3 Based upon the projects that have been contracted, approved and calls issued in December 2016 the level of funding at risk has reduced since the last Board report and is currently estimated at £92.6m (down from £112.5m) of which £86.88m is currently allowed to be committed. This is broken down as follows:

	94% 'At Risk'
• ERDF	£49.19m
• ESF	£36.34m
• EAFRD	£1.35m
Total	£86.88m

These figures do not take into account the calls that are ready but not yet been issued for ESF, worth £9m, and are dependent upon the full call allocations committed to projects. Neither do they take into account extensions to existing projects after their current contracts expire (from 2018 onwards) and initiatives such as the Evergreen Urban Development Fund which is currently in development.

- 3.4 From a Lancashire perspective, key issues for the Board to be aware of are:



- The length of contracts to ensure projects have adequate time to deliver meaningful outputs and outcomes rather than a 'rush to spend';
- Continued support for approved projects where they meet local priorities and are delivering to target to overcome any funding gaps;
- A requirement to deliver the *Enterprises Supported* revenue output with a focus on Lancashire priority sectors such as Advanced Manufacturing;
- The need to establish a new national investment programme, of at least similar scale, to replace EU funding from 2020 that supports the delivery of locally determined economic growth and regeneration priorities.
- Government capacity resulting in delays in issuing calls, appraising applications and agreeing contracts.
- The availability of match funding for key local priorities such as Flood protection and mitigation (Environment Agency), Skills (successor to the SFA) and business support.

3.5 The appropriate level of capacity to be able to deliver the ESIF programme is crucial to ensure that the benefits of the programme can be maximised in support of local and national priorities. Currently, Government capacity does not appear to be in place across all the constituent ESIF programmes (although Lancashire Officers could provide additional support if allowed).

3.6 Additionally, the Government also needs to plan for a successor programme(s) to the European Structural and Investment Funds. The recently published *Building Our Industrial Strategy* Green Paper prioritises many of the activities already supported through the ESIF programme but does not indicate how they will be targeted and delivered or when this will occur.