



Lancashire Enterprise Partnership Limited

Private and Confidential: NO

Tuesday, 7 November 2017

Lancashire European Structural and Investment Fund (ESIF) programme - Update on Performance and Future Planning

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

Executive Summary

The report sets out the current position regarding the Lancashire European Structural and Investment Funds (ESIF), including details on current programme performance and commitment levels with information on planned future activity.

Recommendation

The LEP Board is asked to note the contents of the report, including current commitment levels and planned future activity. In particular the Board is requested to consider;

- (i) The overall performance of the ESIF programme;
- (ii) The issues related to the European Social Fund (ESF), as detailed in paragraph 2.3; and
- (iii) 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.

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 (unless altered as part of Brexit negotiations).

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 and largest Transition Area allocation) with a requirement for at least £144m of match funding.

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

1.4 In response to the allocation of finances and targets to Lancashire ESIF programme, the Lancashire ESIF Committee felt that some did not meet Lancashire's economic needs and/or were not achievable. The ESIF committee submitted a number of amendments to the programme in 2016.

1.5 Although not yet formally notified the Government have agreed to the following amendments to the Lancashire programme based upon our submission;

- An additional £2.4m for the ERDF programme, resulting from the statistical review, be added to the allocation for Priority 1 Research and Innovation. A call was issued earlier in the year to allocate this amount and project applications are currently going through the appraisal process
- The Priority 2 ICT infrastructure targets have been removed from the Lancashire programme due to the performance of the Lancashire Superfast Broadband Rollout in delivering 24mbps speeds to properties in Lancashire. Instead all remaining Priority 2 ICT resources have been transferred to Priority 3 Business Support to allow for joint projects delivering business and ICT support together (rather than individual projects).
- 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. In addition the criteria for Low Carbon have been widened to allow for a greater range of activity.
- An increased allocation for Priority 5 Climate Change (Flood Mitigation) to better reflect Lancashire's issues and the strong pipeline of activity that will support and protect businesses and homes (now worth up to £10m from £3m). A call is due to be issued in November 2017.

1.6 Post the EU Referendum the Chancellor had given a guarantee that all projects contracted prior to Brexit will have their funding honoured. In addition, Government Departments added an enhanced Value for Money assessment to project applications to ensure they support domestic priorities.



2. **Current Position of the ESIF programme**

- 2.1 The Lancashire ESIF Committee has overseen a number of calls across a range of activities since the ESIF programme was launched. At the time of writing £95m has been contracted, another £30m of projects is currently in appraisal, with up to £50m of calls planned to be issued in November 2017. This leaves approximately £47m of funds (21% of the programme total) possibly 'at risk' if not committed to projects prior to Brexit (March 2019).
- 2.2 Two key risks to the delivery of Lancashire's ESIF programme are delays in future calls, thereby not giving enough time before BREXIT for projects to be approved and delivered, and the availability of match-funding to support new project ideas and the continued delivery of programme outputs. These are in addition to ensuring that projects spend to financial profile to ensure that all funds are spent as planned.
- 2.3 ESIF Committee officers are engaged with Managing Authorities to ensure that local priority activity is identified for calls as soon as possible. However, given that the project calls schedule is being driven by national considerations and Managing Authority capacity, as opposed to local requirements, there may well continue to be a mismatch between local need for calls and the national position. However, where appropriate, call information is ready locally to ensure calls can be issued by Managing Authorities as soon as they give the go ahead.
- 2.4 Regarding the availability of match-funding this is very much dependent upon the financial capacity of delivery partners as well as the availability of other domestic funding streams. For example, in the case of the Priority 5 Flood Mitigation schemes (see below) a lack of guaranteed match-funding from the Environment Agency has meant Lancashire's priority projects have not been able to apply for ESIF resources. A lack of match-funding has also prevented the Education and Skills Funding Agency (ESFA) accessing its full allocation of ESF resources.
- 2.5 Current performance across all ESIF programmes is good against national benchmarks, though there is a need for improved performance in specific areas. This will be addressed through the issuing of projects calls (see below).
- 2.6 In addition, the ESIF committee is focused on ensuring project delivery against targets although, as indicated below, the performance information from Managing Authorities is variable. However, project deliverers still need to ensure that activity is on target and where there is underperformance/underspends Managing Authorities are notified as soon as possible. This will allow for remedial action and/or the recycling of resources in a timely manner that would retain money in Lancashire.



ERDF

- 2.7 Project applications currently being appraised include the Health Innovation Campus (Lancaster University) and the Advanced Manufacturing Research Centre NW (AMRC NW) for ERDF funding and Leadership and Management activity for ESF funding. A Lancashire ERDF Urban Development Fund is also in development, as part of a broader LEP investment framework and is the subject of a more detailed report elsewhere on this agenda. The calls planned for November 2017 will focus on Flood Mitigation, Low Carbon and Business Support continuation activity up to 2020 (with a final date still to be confirmed).
- 2.8 Another ERDF call is planned for March 2018, with a focus on the continued support for performing activity supported by Priority 1 Research and Innovation. It is unclear when the next ESF call will be.

ESF

- 2.9 In addition, there is £13m of ESF resources that were originally allocated to the ESFA (from the original £40m allocated) still to be committed. Due to issues regarding the future of the former Skills Funding Agency, only £27m of the original £40m was contracted for delivery until March 2018. As yet it is still not certain whether the ESFA will be able to continue delivery post March 2018 and if not whether other match-funding will be made available.
- 2.10 There have been a number of issues with the way the ESF programme is being managed by DWP, namely;
- A lack of detailed management information to allow the Lancashire ESIF Committee to take an informed view on the delivery of the Fund. Coupled with a lack of local capacity to provide information at meetings, the reporting of the performance by the DWP has been poor with local officers providing most of the detailed performance information. As a result there is a lack of clarity in certain priorities on performance that the Managing Authority are currently unable to resolve.
 - The DWP have added an extra appraisal stage to the ESF process, which occurs after projects have been appraised and recommended from approval using the transparent national process. The impact in Lancashire has been that the Chorley Inclusion and Employment Project, that had successfully passed the usual appraisal process and was recommended from approval by the ESIF Committee, was rejected by DWP. Both the Chair of the ESIF Committee and Chorley Borough Council requested the detail of the extra appraisal for this project, as well as appealing the outcome, but without any further significant information forthcoming.



- As previously reported the DWP have consistently not issued ESF calls due to the fact that Lancashire is not considered a priority area and this has impacted on our overall performance. This unacceptable approach has been raised with Government but there has been no material improvement in DWP's approach and no operational changes are planned.

EAFRD

- 2.11 Regarding the EAFRD programme all resources will be included in calls to be issued by December 2017. There will not be a local Rural Broadband call as the Government have issued a national call with a deadline of May 2018. Only those organisations currently leading on the delivery of Superfast Broadband, the County Council in the case of Lancashire, are eligible to bid. Early discussions have already started with Districts on eligible areas with regard to support for rural businesses.

Output Performance

- 2.12 Based upon currently contracted projects the allocated overall achievement against our Performance Framework Targets is as follows:

ERDF (Based upon 39% of ERDF indicative allocation contracted)

- | | |
|--|-----|
| • Number of enterprises receiving support | 40% |
| • Surface area of habitats protected | 30% |
| • Estimated annual decrease in Green House Gas (GHG) | 0% |
| • Businesses and properties with reduced flood risk | 0% |

These figures do not include projects going through appraisal which will increase performance against the number of enterprises receiving support target (as will the continuation calls due to be issued this year).

- 2.13 National performance against the Annual Decrease in GHG has been below target due to overly restrictive national project eligibility criteria. We are expecting a number of projects to come forward in response to the November 2017 call given that the project criteria has been widened, there are likely to be further projects as the project pipeline increases. For the businesses and properties with reduced flood risk, we are expecting performance to increase due to the issuing of a £10m call for flood mitigation projects in November 2017 with a strong pipeline of Environment Agency backed projects.

ESF (Based upon 48% of indicative allocation contracted)

- | | |
|----------------------|-----|
| • Total Participants | 54% |
|----------------------|-----|



Performance against sub-group targets is good and in line with financial commitments with the exception of the participants from BAME groups at 38%. It is expected that this figure will increase through the delivery of existing contracted projects and by a Widening Participation Call that has recently been issued. Performance in this area is being constantly reviewed and if required additional activity will be commissioned to ensure participants numbers from BAME groups is in line with overall performance.

The outputs for the *EAFRD* programme are job focused and currently the programme is performing to target.

3. 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 Chancellor's statement which indicated that contracted projects would have their funding guaranteed even after the UK leaves the EU.
- 3.2 Based upon the projects that have been contracted, approved and calls issued the level of funding 'at risk' has reduced since the last Board report in January 2017 and is currently estimated at £47m (down from £92m). This is broken down as follows:

• ERDF	£35m
• ESF	£12m
• EAFRD	£0m
Total	£47m

These figures do not take into account any calls that will be issued in 2018 to support continuation activity. This figure includes the £12m that could be accessed by the Lancashire programme if the national ESIF programme meets its Performance Reserve Targets.

- 3.3 From a Lancashire perspective, key issues for the Board to be aware of are:
- The need for contract length to be long enough to ensure projects have adequate time to deliver meaningful outputs and outcomes rather than a 'rush to spend' - this is particularly important for any continuation activity supported from late 2017/early 2018.
 - The Performance Reserve monitoring point in December 2018 at which point the England ESIF Growth Programme will be reviewed against expenditure targets. If successful this will allow the programme to access the remaining 6% of the programme, approximately £12m in Lancashire's case. Lancashire should achieve its contribution to this target but delays in issuing calls and/or projects not delivering to profile could be problematic.



- Ensuring adequate match-funding is available to draw down ESIF resources, it is becoming apparent match-funding is scarcer than it was at the start of the ESIF programme.
- The capacity of Government, especially DWP, to manage the ESF programme effectively and provide adequate information to the Lancashire ESIF Committee to allow for effective performance management.
- An increasing lack of acknowledgement by Government officials of local priorities in the delivery of the current ESIF programme.
- 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. The UK Shared Prosperity Fund is the current proposed vehicle for this but as yet there is no detail as to how or when it will operate and/or what the priorities will be. It has to be assumed that performance in delivering the ESIF programme could be taken into account in the development of the Shared Prosperity Fund.
- The need to consult with LEPs on any successor programme to ESIF at the outset of programme development.