

## **Lancashire Enterprise Partnership Limited**

**Private & Confidential: NO**

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### **European Funding – European Structural and Investment Funds (ESIF) update**

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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

- Revised financial allocations and outputs;
- Project calls/launches; and
- Project pipeline development.

#### **Recommendation**

The LEP Board are asked to note the report.

### **Background and Advice**

#### **1. European Structural and Investment Funds (ESIF) Programme Revised financial allocations and outputs**

- 1.1 In October 2015 the Government issued revised ESIF funding allocations and outputs to all 39 LEP area sub committees. The revised allocations, for both European Regional Development Funds (ERDF) and Social Funds (ESF) were partly based upon a change in the exchange rate between the Euro and Sterling since the original allocations, some 18 months previous, and alterations made by Government in funding for different priorities.



- 1.2 The changes in the exchange have resulted in the overall Lancashire ESIF programme reducing from £230m to £188m. This is based upon a new planning exchange rate of £0.71 rather than £0.85. This translates into a £112m ERDF programme and a £75m ESF programme (£23m and £15m reductions respectively).
- 1.3 The exchange rate will be reviewed twice a year and as a result the allocation to Lancashire could go up as well as down. It is worth noting that in the previous North West European programme exchange rate changes result in an extra £50m becoming available which was used to support Superfast Broadband interventions in Lancashire and across the North West.
- 1.4 The detail of the revised allocations, and in particular the allocations between different funding for different types of activity, was presented to the Lancashire ESIF Partnership (area subcommittee). The Partnership felt that Lancashire's local priorities, especially support for Research and Innovation and the development of related infrastructure, had not been taken into account when resources had been allocated to different delivery headings. The Partnership particularly noted that, exclusive of exchange rate changes, there was £8m less in the Research and Innovation allocation than proposed locally and £4m more in the Low Carbon allocation than proposed locally. In these cases the allocation for Lancashire is below/above the national average.
- 1.5 In addition, to the changes in financial allocation the level of outputs required to be delivered has also changed. The outputs originally submitted by Lancashire were based upon our own evaluation of what could be delivered and validated by an external economic consultancy. The outputs that have now been allocated are above those originally planned with an increased emphasis on revenue type activity, i.e. enterprises supported, to the detriment of the delivery of capital activity in support of local priorities such as Growth Deal activity. For example the number of individuals receiving skills support increasing from 32,970 to 66,700 but the amount of land remediation reduced from 30 hectares to 1 hectare.
- 1.6 The ESIF partnership agreed to challenge the thematic allocations and also the level of targets both for ERDF and ESF. At the time of writing the ESF thematic allocations have been altered to meet local priorities and commitments, whilst the response to the challenge on the ERDF programme will not be available until 14<sup>th</sup> December.

Annex 1 to this report sets out the detail of the ERDF and ESF allocations and the variance with the allocations originally proposed by Lancashire.

- 1.7 ESIF Partnership held a briefing event for partners on 25<sup>th</sup> November to provide an update on the current status of the programme. The Partnership has also



agreed, in conjunction with LEP officers, to hold a series of workshops in the New Year between interested parties to support the development of projects eligible for ESIF resources and in support of LEP priorities. The outcome of the workshops could then be used to inform the development of calls for April 2016.

## 2. ESIF Calls

### *European Regional Development Fund (ERDF) – Existing Calls*

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
- Growth Accelerator ( calls for Growth Coaching, Access to Finance & Innovation)
- UKTi

And locally led activity

- BOOST, the Lancashire Growth Hub
- Lancashire Innovation Clinic promoted by UCLAN
- Better Off in Business – youth enterprise scheme promoted by the Prince's Trust
- Propel to Grow – Business Coaching Programme promoted by Burley based training company Vedas

2.2 The Outline Applications submitted in response to the calls were considered at Lancashire ESIF Partnership in September 2015 and the full applications considered the ESIF partnership on 25<sup>th</sup> November 2015. The partnership recommended for approval all the projects with the exception of Propel and UKTI where further detail was requested.

2.3 On 27<sup>th</sup> November officers were informed that Government had withdrawn funding for the national Business Growth Service (including all elements of the Growth Accelerator offer and the Manufacturing Advisory Service) as part of the BIS savings put forward in response to the Comprehensive Spending Review. In addition to the loss of ERDF match funded activity, it is estimated £1.5m per annum of business support activity had been delivered in Lancashire via these programmes. A national budget of £12m in each of the next two years has been established to support Growth Hubs but the methodology of how this will be spread across the 39 LEP's is yet to be established.

2.4 The Partnership were expecting to receive the full application appraisal for the Blackpool Mental Health ESF call but this was not made available for the meeting by the Department for Work and Pensions.

*European Regional Development Fund (ERDF) – New Calls*

- 2.4 The Partnership also agreed for three ERDF calls to be issued in December 2015. These calls will focus on High Growth/value activity supportable from the ERDF Research and innovation and SME Competitiveness themes of the national programme. These will also be a call that will focus on the development of the Low Carbon economy and innovation. Due to the uncertainty regarding allocations to themes, and the issues related to outputs, it was agreed that the calls will be issued without financial allocation but will instead list the revised outputs the ESIF programme is required to deliver.
- 2.5 The Partnership did not agree any further ESF calls but requested that the Managing Authority for ESF (The Department for Work and Pensions) attend the next Partnership meeting to outline the process for the approval and delivery of the Skills Funding Agency opt in (worth £41m in ESF resources).

*Northern Powerhouse Investment Fund – Call anticipated*

- 2.6 The LEP has received a number of updates on the form and coverage of successor arrangements for the North West Fund. Loan and equity financial instruments of this kind are viewed as an increasingly important business support tool by the European Commission. In the run up to the Comprehensive Spending Review the LEP were approached and asked to back a Northern Powerhouse Investment Fund which, in addition to the ERDF matched fund, will bring a further £60m HM Treasury contribution to be managed under the same fund management structure. Lancashire's proportion of this package will be £12.5m of ERDF matched by £12.5m from the European Investment Bank.

**3. ESIF Commitments**

- 3.1 Based upon the formal commitments, and informal 'earmarking' of resources, the amount of 'free' funds to support activity is as follows;

**ERDF - £76m**

This figure is based upon the current commitment level of £9m for the business support revenue calls plus indicative allocations to NW Fund loan type activity (£12.5m), the Evergreen development loan fund (£10m) and Local Impact Fund loan type activity (£5m). The above figure does not take into account any resources that might be committed as result of the calls highlighted in section 3 of this report.

**ESF - £24m**



This figure is based upon a £7.5m commitment to the BIG Lottery Opt In, £1m commitment to the Blackpool Mental Health calls. It is also inclusive of indicative allocations of £41m and £3m to the Skills Funding Agency and Department for Work and Pensions Opt Ins respectively

*EAFRD* - **£4.2m**

#### **4. Conclusions and Recommendations**

- 4.1 There are still a significant level of resource to be accessed through the ESIF programme despite the reduction as a result of exchange rate. However, the ERDF programme is now focused on revenue type activity with any support for capital expenditure being limited. This will impact upon the ability of the ESIF programme to support eligible capital projects with Growth Deal funding and also increase the requirement locally for revenue match in support of direct business support (which will have been exacerbated by the Government's recent decision re MAS and the Business Growth service).
- 4.2 The workshops being held in the New Year will support the develop of projects to access remaining resources but a key requirement will be the availability of local match funding to facilitate the drawdown of ESIF resources.
- 4.3 The LEP Board are asked to note the report.

## Annex 1.

### 1.1 ERDF Funding Allocation Revisions

			0.8562	0.71		0.8562	0.71			
Thematic Objective	Description	Revised Allocation (Euros)	Revised Allocation Converted to Sterling (£)	Revised Allocation Exchange Rate Revaluation (£)	FINAL ALLOCATION (Euros)	FINAL ALLOCATION Converted to Sterling (£)	FINAL ALLOCATION Exchange Rate Revaluation (£)	Difference between revised allocation and final allocation (Euros)	Difference between revised allocation and final allocation (Original exchange rate)	Difference between revised allocation and final allocation (After exchange rate revaluation)
1	Research & Innovation	€ 29,035,569	24,860,254	20,615,254	€ 29,078,898	24,897,352	20,646,018	€ 43,329	37,098	30,764
2	ICT	€ 8,342,568	7,142,907	5,923,223	€ 8,360,996	7,158,685	5,936,307	€ 18,428	15,778	13,084
3	SME Competitiveness	€ 81,116,023	69,451,539	57,592,376	€ 80,805,944	69,186,049	57,372,220	-€ 310,079	-265,489	-220,156
4	Low Carbon	€ 33,639,783	28,802,382	23,884,246	€ 33,657,280	28,817,363	23,896,669	€ 17,497	14,981	12,423
5	Climate Change	€ 3,747,285	3,208,425	2,660,572	€ 3,968,228	3,397,597	2,817,442	€ 220,943	189,172	156,870
6	Environment	€ 3,192,948	2,733,802	2,266,993	€ 3,202,828	2,742,261	2,274,008	€ 9,880	8,459	7,015
		<b>€ 159,074,175</b>	<b>136,199,309</b>	<b>112,942,664</b>	<b>€ 159,074,174</b>	<b>136,199,308</b>	<b>112,942,664</b>	<b>-€ 1</b>	<b>-1</b>	<b>-1</b>

## 1.2 ESF Funding Allocation Revisions

				0.8562	0.71	
	Original Allocation		Updated Allocation Dec 15	Converted to Sterling	Revaluation - Updated Allocation	Variance between original and updated allocation (after revaluation)
Investment Priority	Euros		Euros	£	£	£
IP 8i (1.1)	€ 29,419,117		€ 21,283,255	£18,222,723	£15,111,111	-£5,776,462
IP 8ii ESF (1.2)	€ 4,144,525		€ 9,389,670	£8,039,435	£6,666,666	£3,724,053
<b>TO8 Total</b>	<b>€ 33,563,642</b>		<b>€ 30,672,925</b>	<b>£26,262,158</b>	<b>£21,777,777</b>	<b>-£2,052,409</b>
IP 9i (1.4)	€ 17,632,302		€ 22,178,191	£18,988,967	£15,746,516	£3,227,581
<b>TO9 total</b>	<b>€ 17,632,302</b>		<b>€ 22,178,191</b>	<b>£18,988,967</b>	<b>£15,746,516</b>	£3,227,581
<b>PA1 Total</b>	<b>€ 51,195,944</b>		<b>€ 52,851,116</b>	<b>£45,251,126</b>	<b>£37,524,292</b>	£1,175,172
IP 10iii (2.1)	€ 48,138,166		€ 46,806,815	£40,075,995	£33,232,839	-£945,259
IP 10iv (2.2)	€ 6,781,638		€ 6,457,817	£5,529,183	£4,585,050	-£229,913
<b>TO10 / PA2 Total</b>	<b>€ 54,919,804</b>		<b>€ 53,264,632</b>	<b>£45,605,178</b>	<b>£37,817,889</b>	<b>-£1,175,172</b>
<b>TOTAL</b>	<b>€ 106,115,748</b>		<b>€ 106,115,748</b>	<b>£90,856,303</b>	<b>£75,342,181</b>	£0