

Lancashire Enterprise Partnership Limited

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European Structural and Investment Funds (ESIF) – Post EU Referendum Update
(Annexes 'A', 'B' and 'C' refer)

Report Author: Sean McGrath, Development and Corporate Resources, Lancashire County Council.

Executive Summary

The report sets out the latest position on the implementation of Lancashire's European Structural and Investment Funds (ESIF) Strategy and indicative funding allocation; including the emerging implications of 'Brexit' and specifically the impact of the Treasury's recent announcement regarding funding guarantees in support of the ESIF programme.

The report highlights the success of the ESIF programme in supporting priority activity and the need to ensure that any changes to the ESIF programme, and/or creation of a successor programme, continue to support existing activity and allow for support for priority activity not yet contracted. It is currently estimated that up to £112.5m of ESIF financial support for priority activity is at risk if no further projects are approved after the Autumn Statement. A number of key projects are due to continue/come forward later in the programme which are integral to Growth Deal and Lancashire's Skills and Employment Strategy. Without these projects there will be a short fall in (amongst others);

Enterprises receiving support	58%
Enterprises cooperating with research institutions	88%
Business and Properties with reduced from Food Risk	100%
Participants in Skills and Employment programmes	48%

A significant reduction in funding will jeopardise key activities supporting business growth and have a detrimental impact on plans to enhance skills levels and increase technological development and innovation in Lancashire.

Recommendations

The LEP Board is asked to:

- (i) Agree that a joint letter from the Chair of the LEP Board, Chair of the shadow Lancashire Combined Authority and Chair of the Lancashire ESIF Committee is sent to the Chancellor stressing the importance of continued support for Lancashire's priorities, whether through ESIF funding or a successor funding stream, highlighting



local strategic objectives and key pre-planned activities, as well as cross-funding dependencies to other major funding streams such as Growth Deal;

- (ii) Request additional clarity on the Chancellor's recent funding guarantee on the status of projects/activity already within the ESIF programme that might not be contracted by the Autumn Statement;
- (iii) Work with the shadow Combined Authority to brief Lancashire MPs and secure their support for Lancashire's case-making with Government;
- (iv) Request a more detailed discussion with senior Government officials regarding the nature of Lancashire's current allocation and the importance of local flexibility in meeting specific needs related to Research and Innovation and Flood Mitigation activity; and
- (v) Request Lancashire's ESIF lead officers urgently review the current pipeline of ESIF activity and undertake a rapid consultation exercise in order to identify key objectives, projects and outputs that are still to be supported by the current ESIF programme.

Background and Advice

1. European Structural and Investment Funds 2014-20 Implementation

1.1 As reported at previous meetings 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 original indicative allocation of £231m (6th largest allocation in England). Allocations are made in Euros from the EC and therefore the sterling value is subject to Exchange rate fluctuations.

1.3 In order to access this funding all LEPs submitted a European Structural and Investment Funds (ESIFs) Strategy, in advance of the 3 Operational Programmes for the funds that make up the ESIF programme being agreed. The national ESIF programme was finally launched in 2015, over a year after the original start date.

1.4 The Lancashire ESIF programme was designed to support key local priorities and operation in conjunction with/complement other funding streams and investments. Any changes/withdrawal will have an impact on the ability of Lancashire to achieve its strategic objectives and deliver key outputs. 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

1.5 As previously referenced, 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, whose membership was nominated by the LEP Board, with the Committee reporting to the National Growth Board.

1.6 Lancashire's original £231m allocation was split; £137m ERDF, £90m ESF and £4.6m EAFRD based upon a Euro Exchange Rate of £0.8562. It was agreed by Government that the Exchange Rate would be reviewed on a six monthly basis. As a result of the last Exchange Rate review the indicative allocation to Lancashire reduced to £211m; ERDF £124m, ESF £82m, EAFRD £4.2m, of which only £198m (94%) can be committed (the remaining funds can only be accessed when certain targets are met).

1.7 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 £351m.

1.8 There is no information as to when, or if, the next Exchange Rate review will take place but, based upon the current relative strengths of Sterling and Euro, any review could result in an increase in the sterling value of the ESIF programme without an increase in targets.

1.9 The national ESIF programme contains 25+ main outputs, with the key Lancashire ones set out in the table below.

Output	Target	Outputs Contracted/ Contracting	%	Outputs To be achieved	%
Productive investment: Number of enterprises receiving support	9,800	4,118	42%	5,682	58%
Productive investment: Number of new enterprises supported	2,859	699	24%	2,160	76%
Research, Innovation: Number of enterprises supported to introduce new to	160	26	16%	134	84%



the market products					
Research, Innovation: Number of enterprises supported to introduce new to the firm products	974	400	41%	574	59%
GHG reduction: Estimated annual decrease of GHG	33,166	1,328	4%	31,838	96%
Number of researchers working in improved research or innovation facilities	44	-	0%	44	100%
Research, Innovation: Number of enterprises cooperating with research institutions	403	48	12%	355	88%
Businesses and properties with reduced flood risk	1,365	-	0%	1,365	100%
Total Training and Employment Participants	69,350	36,189	52%	33,161	48%

1.10 In response to the allocation of targets to Lancashire ESIF programme, the ESIF Committee felt that some did not meet Lancashire's economic needs and/or were not achievable. In particular, it was felt 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 take into account Lancashire's progress on the delivery of Superfast Broadband Infrastructure
- The allocation to the Low Carbon priority was too high (above the national average) and should be swapped to the Research and Innovation and Climate Change (Flood Mitigation) priorities to support other projects of greater local significance. The latest National Growth Board papers indicate that the performance of the Low Carbon priority is a concern across a number of LEPs in the North of England.



- 1.11 However, there was no significant movement in the Lancashire allocation or targets as a result of the submission although it was indicated that some changes would be considered at the mid programme review in 2018 (it is not clear if this will now take place).

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 £100m of activity. Where Government has issued contracts it has been for up to 3 years, not the full length of the programme to 2020.
- 2.2 Given the late start of the national ESIF programme, over a year later than planned, the Lancashire programme has been successful in issuing calls and progressing projects to approval; all based on local priorities and within the context of national programmes, e.g. the BOOST business support programme and associated activity.
- 2.3 The Lancashire programme is operating in line with national expectations and it is envisaged that this performance will be maintained/improve further as more project approvals take place. A summary of the financial position of the programme is attached as Annex A and the detail of programme activity is attached as Annex B.

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'. The Treasury's recent statement regarding the future of ESIF funds (see attached at Annex C) has provided some clarity on projects that have been/are to be contracted. To summarise, projects that have been contracted, in the normal course of business, by the Autumn Statement 2016 will have their funding guaranteed even after the UK leaves the EU. It is assumed that being 'contracted' refers to a project having returned a signed Grant Funding Agreement.
- 3.2 The ESIF Committee had scheduled a number of further calls, up to Spring 2017, in order to allocate all Lancashire's resources as effectively as possible. The calls are based upon the project pipeline development work that has been undertaken over the past two years. The calls have been brought forward and are currently with Government departments for consideration. At the time of writing the position of calls prior to/after the Autumn Statement is unclear.
- 3.3 The latest information from Government would suggest, though does not confirm, that projects currently in the process of being contracted/appraised are not at risk (see Annex B). However, given national uncertainty, the potential scale of funding at risk to Lancashire is currently estimated at £112.5M, if not



covered by the Treasury's currently time limited guarantee. This figure is broken down as follows:

• ERDF	£78.48m
• ESF	£30.62m
• EAFRD	£3.4m
Total	£112.5m

3.4 As indicated in Annex B, there are plans for most of the resource highlighted above including £36m of proposed calls currently being considered by Government. However, these calls might need to be curtailed/amended dependent upon the length of the ESIF programme (which is still to be decided). Calls that are currently awaiting a Government response include

• Research and Innovation	£12.29m
• Apprenticeships	£4.59m
• Flood Risk Mitigation	£2.82

In addition delays in the contracting process could be problematic especially if delays are caused as a result of a lack of Government capacity.

3.5 Regarding projects still to be considered and proposed new calls, any decisions appear to be predicated on agreement from the Treasury on the value of the remaining ESIF programme from now until formal 'Brexit'. The papers for the National Growth Board on 15th September indicate that all the relevant Government departments are currently discussing calls, and the values of, with the Treasury but no date has been given for any agreement. It is likely that any such agreement will be linked to the content of the Autumn Statement.

3.6 The operational view taken by Government departments is that new calls are likely to take place, and therefore new projects agreed, but with no certainty when the calls will be launched, if there will be a financial limit (below that of current allocations) on calls and the length of any contracts.

3.7 If Article 50 is enacted in January 2017, and the negotiation process takes two years as currently planned, the ESIF programme will finish at the end of December 2018 (with project and programme financial completion taking place some 6 to 12 months later). For projects currently contracted the Government has said it will honour spending commitments beyond December 2018. This will not necessarily be the case for any projects currently contracting or still to be approved. This will have a significant impact upon project delivery as effectively it would give them two years, or less, to deliver their outputs. It also means that any successor domestic funding regime, if there is one, will need to be in place by mid-2018 in order to prevent any funding gaps for priority activity.

3.8 It should be noted that the ESIF element of the Northern Powerhouse Investment (loan) Fund is currently going through the approval process and could be contracted before the Autumn Statement. This project is likely to be



contracted until at least 2020, due to the nature of the investments/outputs it will deliver and this should allow the fund to begin offering investments within the next three months. In addition the Government has confirmed that the EC funded Horizon 2020 HE Research and Innovation programme will run for its full length. This approach may have implications for other priority projects in terms of length of contracts. It should also be borne in mind that Article 50 may not be enacted in January 2017 and the associated negotiations may take longer than two years.

3.9 From a Lancashire perspective, key issues include:

- The ability to support priority activity through new calls, already lodged with Government, as identified through our extensive pipeline development activity;
- Any future calls to be able to allocate the full ESIF allocation in order to maximise support for priority activity and deliver key outputs;
- The length of contracts for any activity 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 in order to overcome any funding gaps; and
- The need to establish a new national investment programme, of at least similar scale, to replace EU funding that supported the delivery of locally determined economic growth and regeneration priorities.

3.10 Crucially, those resources not yet contracted, but either committed or ring-fenced for future priority activity by the Lancashire ESIF Committee, need to be retained for Lancashire. There are a number of LEP priority activities that have been identified through the pipeline development process that are still to come forward and/or whose position is unclear.

3.11 In addition, the Autumn Statement 2016, as well as affecting decisions related to ESIF funding, is also likely to have an impact upon match funding for ESIF projects, e.g. Environment Agency Flood Mitigation activity, Skills Funding Agency etc. As a result decisions on ESIF resources need to take into account wider impacts, both locally and nationally. In addition, reductions/removal of ESIF funding, without a viable successor funding stream(s), will place additional pressure on existing domestic funds.

3.12 For example £41.1m was allocated to the Skills Funding Agency to deliver skills and employment activity in Lancashire, matched with the SFAs own resources. However, the SFA has always indicated that it could not guarantee match funding to deliver ESF past March 2018, due to the impact of devolved funding elsewhere, and therefore has only contracted £27.5m of activity. As a result the uncertainties over future SFA and ESIF funding means that £13.7m (plus match funding) of Skills and Employment activity will be at risk by the time of the Autumn Statement.



- 3.13 All of the activity funded under Priority 3 SME competitiveness supports and/or works under the umbrella of the BOOST Business Growth Hub with £27m of activity either contracted or contracting. Any changes to funding in this area will have a significant impact upon the ability of Lancashire to continue to support growth and increased productivity within our local business base.