



**European Union**  
European Structural  
and Investment Funds

**European Structural and Investment Funds**  
**2014 - 2020**

**Growth Programme for England**

## **ESI Funds Growth Programme Board**

### **Update on Performance Management of the Structural Funds**

#### **Purpose:**

Paper setting out more detail on how progress against the Structural Funds Programmes targets will be tracked and reported to the Board.

#### **Recommendations:**

That the Board:

- i. note progress on development of a common performance management reporting structure; and
- ii. provide views on the membership of the GPB Performance and Dispute Resolution sub-committee.

#### **Summary:**

At previous meetings the Board has agreed the general principles informing performance management of the Structural Fund Programmes. In addition the Board has also agreed how performance will be reviewed, consequences arising when targets are missed and the measures that would be put in place to support LEP areas falling short of targets.

The Managing Authorities are working together to develop a common approach to reporting progress against their respective Programme's targets. Focus of this work to date has been on the 2018 Performance Framework Targets. The GPB Dashboard and Progress Reports will provide a common ERDF and ESF reporting structure for the Board to assess progress against these 2018 Targets. The Dashboard will also identify key risks to successful delivery of the Programme.

The Performance and Dispute Resolution Sub-Committee will consider, a month in advance of each Board meeting, progress against the Performance Framework Milestones and also the broader suite of Programming targets. The Sub-Committee will help identify the key performance issues that the Board should be aware of. The sub-Committee is expected to first meet in May 2016.

#### **Background**

1. Results and output targets, milestones and financial expenditure targets are set out in the ERDF and ESF Operational Programmes. There are a number of different targets in the Operational Programmes which are used to assess effective delivery.

2. Both ERDF and ESF have a 'Performance Framework' with set targets. If these are achieved, an amount held in reserve (the 'Performance Reserve' which totals 6% of the Programme as a whole) is released to each Priority Axis. In addition, there is a rolling 'use it or lose it' annual spend target (N+3) from 2018.
3. There are also other targets which help the Managing Authorities and partners to understand how effective investments have been against the specific objectives of the respective Programmes. There is no direct reward or sanction for achieving these targets.
4. Further information on all these elements can be found in Annex A.
5. At the Growth Programme Board on the 23<sup>rd</sup> September 2014 we presented a paper describing the overarching principles for developing a model for the performance management of the Operational Programmes. The Board agreed those principles; these are set out at Annex B.
6. At the Growth Programme Board on the 9th December 2014 we presented a paper setting out the recommendations of the Performance Management Task and Finish Group covering the allocation of targets to LEP areas, the regular review of performance, consequences arising when targets are missed and the measures that would be put in place to support areas falling short of targets. The Board agreed the recommendations; these are set out at Annex C.
7. This paper builds on the paper presented at the 16<sup>th</sup> December 2015 Growth Programme Board setting out more detail on how progress against the Structural Funds Programmes targets will be tracked and reported to the Board.

### **Performance Framework Progress Reporting**

8. The focus of reporting to the Board will be on progress towards the 2018 Performance Framework Targets as failure to meet these targets will have financial implications.
9. Failure to meet the N+3 target will also have financial consequences for the Programmes. The first N+3 target is not until 2018, the same year as the performance framework expenditure target. As the performance framework expenditure target in 2018 is higher than the N+3 target. The focus of our reporting up until the end of 2018 will be on this higher target.
10. It is proposed that detailed reporting to the Board on progress against the Performance Framework will cover 3 main data sets:
  - **Target** - The specific Performance Framework Target;
  - **Project Profile** - The national consolidation of spending and associated outputs profiles that have been committed to in signed off Grant Funding Agreements.

- **Target Actuals** - The actual spend and associated outputs which have been achieved and therefore contribute directly to the respective Performance Framework Target.

11. Graphs will be produced so that the Board can see progress against these 3 main data sets against each individual performance framework target by priority axis and by category of region. An example of what these graphs could look like is attached at Annex D. It should be noted that e-claims, the Programme's IT system, will need to be sufficiently developed to provide a consolidation of the data sets.
12. These graphs will help Managing Authorities (MAs) identify where remedial action is required. The main action will be to issue more calls for projects to increase the amount expenditure and outputs. Analysis will be required to establish the correct timing and size of these calls to ensure they will sufficiently address the target shortfall. Factors that could be used in this analysis include:
  - Spending profiles from the 2007-13 programmes;
  - Understanding the mixture of 2014-20 investments and how they vary from the previous programme. In the case of ERDF capital, revenue and financial instruments investments. From an ESF perspective the new split between CFO and direct bidding Funding; and
  - Business processes including both the timescales for getting from calls to signed Grant Funding Agreements (GFA) plus the conversion rate i.e. what is the value of GFAs compared with the size of calls.

#### *GPB Dashboard*

13. A joint Dashboard format for reporting against ERDF and ESF Programme Performance is also being developed to sit above the Performance Framework Progress Reports. The Dashboard will focus on:
  - Visual representation of key management information – Discussion is still on going as to what this should cover.
  - Headlines – Key points for the Board to note arising in the last quarter.
  - Risks and Issues – Key issues and risks that could prevent successful delivery of the respective Programmes.
14. The GPB Dashboard in conjunction with the Performance Framework Progress Reports will enable the Board to see the key areas where programme progress is falling short and enable future meetings to focus on the issues causing the short fall and the remedial action being taken. A first draft of the dashboard is attached at annex E.

#### **Other Performance Reporting**

15. As set out in previous papers to the Board reporting of Management Information to the Board will not be limited to just the Performance Framework. In the case of ESF, in particular, there is a commitment to provide:

- a. Progress against the performance framework targets
- b. Financial performance
  - Overall spend of the programme to date
  - ESF allocation and N+3
  - Overall Spend by CoR, Priority Axis and Investment Priority
- c. Programme Outputs
  - Overall output of the programme to date (National)
  - Outputs by priority axes and IP against each target
- d. Programme Results
  - Results by priority axes and IP for each indicator
- e. Technical Assistance
- f. In-depth equality analysis
- g. Co-Financing Organisations (CFO)

Further detail is provided in annex F.

- 16. To ensure efficient use of the Board's time progress against the bulk of programming targets will be carried out in the Performance and Dispute Resolution Sub-Committee. The Committee will meet the month before each Board meeting and help identify the key performance issues that the Board should be aware of.
- 17. DCLG will set up the first meeting of this sub-Committee for May 2016. At that meeting the approach to performance management reporting to the Board will be finalised and the key issues for discussion at the June Board meeting identified.
- 18. The MAs would welcome the Board's views on the membership of this sub-Committee

7 March 2016

Simon Jones, DCLG and Ben O'Brien, DWP

## **Annex A - Descriptions of Key Programme Targets**

### ***N+3 expenditure targets***

19. N+3 targets require allocated funds to be spent (i.e. claimed from the Commission) by the end of the third calendar year after they were allocated from the EU budget. *This will be measured annually at programme and category of region level from 2018.* If national N+3 targets are not met then the EU will de-commit underspend for the relevant category of region from the Operational Programme, as appropriate. This will in turn reduce the amount of funding available for new financial commitments in the affected Operational Programmes and categories of region.

### ***Performance framework targets***

20. There are three types of performance framework targets: output, implementation steps (milestones); and spend targets for 2018 and 2023:
- **Output targets and milestones:** *these are measured for each category of region at Priority Axis level in 2018 and 2023 and are set out in the performance framework.*
  - **Spend targets:** *these are based on total eligible expenditure for each category of region and will be measured for each Priority Axis in 2018 and 2023.*
21. The notional allocations agreed for each LEP areas included the 6% performance reserve. However, this 6% cannot be financially committed to projects until achievement of the performance framework spend and output targets for 2018 has been determined in individual Priority Axes and categories of region.
22. If the national performance framework targets are not met for 2018, the performance reserve that had been set aside for the failing Priority Axis may potentially be moved to another Priority Axis in the same category of region, provided this is consistent with thematic concentration requirements and can be absorbed. This change would need the Commission's approval and the process will take a number of months to complete. This may result in either a revision of a LEP area PA targets or notional allocations.

### ***Priority Axis Investment Priority targets***

23. There are two targets at this level, output and results targets. These are provided in the Operational Programme at Investment Priority level under each Priority Axis. Although there is no direct reward or sanction for achieving these, the Commission may consider failure to meet these targets as symptomatic of failure in the general management and control of the programme and may act as appropriate in response.

## **Annex B - Performance management general principles agreed by the Growth Programme Board 9<sup>th</sup> December 2014**

- a. Fair and transparent with effective and efficient management information, processes and controls in place to ensure all parties are clear on the requirements and implications.
- b. Alignment, as far as is possible, with other reporting systems that LEPs may be using for other parts of Government, for example Growth Deals and Regional Growth Fund.
- c. Incentivise and drive good performance for all indicators including those set outside of the performance framework and N+3 spend targets geared to helping LEP areas to make the strategic decisions regarding investments of ESI Funds.
- d. Compliance with the regulations. European Structural and Investment Funds are very tightly controlled and non-compliance has consequences.

In practical terms arrangements will need to ensure:

- a. A balance between giving a LEP area sufficient time to implement improvements and ensuring there is sufficient time to spend effectively any funding that may need to be redirected elsewhere.
- b. A proper understanding of the causes for shortfalls in performance. Some may not be within the LEP areas' control.
- c. A mechanism for escalation, with clarity on trigger points and the tolerance levels.

## **Annex C - Recommendations of the Performance Management Task and Finish Group agreed by the Growth programme Board 9<sup>th</sup> December 2014**

### **Allocation of Targets**

- 'N+3' spend targets - Each LEP area will work to annual spend targets, apportioned on a pro rata basis according to their notional financial allocation, that when combined aggregate up to the national targets in each Operational Programme.
- Performance Framework Targets - LEP areas are allocated targets linked to each priority axis broadly in proportion to the financial resources in each ESI Funds Strategy with scope to deviate from these subject to the aggregate of all LEP areas being equal to national targets.

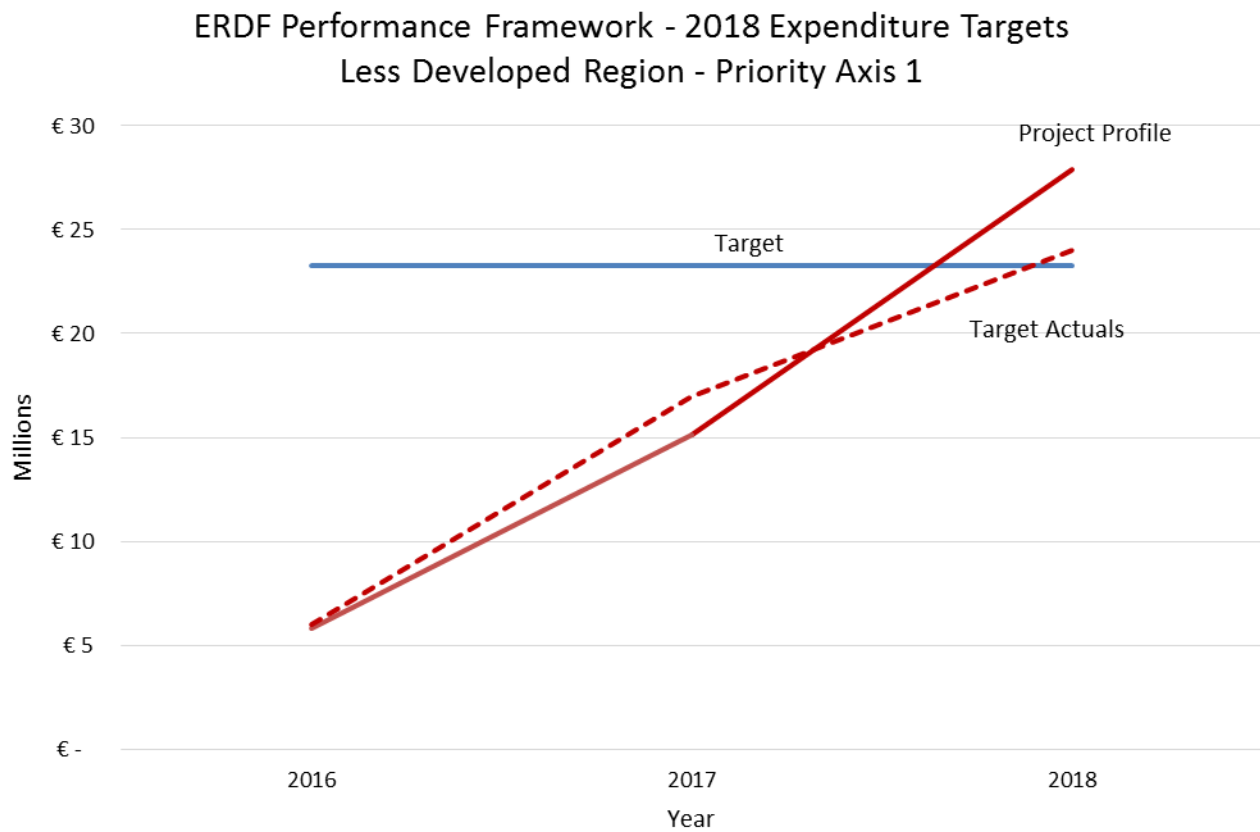
### **Managing Performance**

- 'N+3' spend targets - We reduce notional allocations from LEP areas behind spend targets with scope to vary amount of de-commitment to reflect local circumstances.
- Performance reserve - As a general principle, all should receive the reserve. Those LEP areas achieving below 85% of the targets in the Performance Framework allocated to them would be subject to a review. After the review, if a local area deemed to be unable to meet its targets at least 65% and above after the review, expectation is that the 6% reserve will be removed from the area.

### **Performance Management**

- Hold regular local and national level reviews of the OP in order to assess performance and to take any remedial actions in advance of the N+3 and reserve 2018 milestone, to either ensure we met the targets or to change the OP.
- Regular reviews will take account of local level delivery and the impact on national targets to consider remedial action to rectify the situation. LEP areas behind targets will be supported and managed to bring them back on track, however remedial actions could also result in implementation plans and allocations being revised at ESIF committee level.

## Annex D - Performance Framework Progress Report Example



### Explanatory Note:

This is an example of how the graph would look at the end of 2018.

The solid red line will move upwards over time as more Grant Funding Agreements are signed.

The dotted red line will move from left to right as time progresses and management information becomes available.

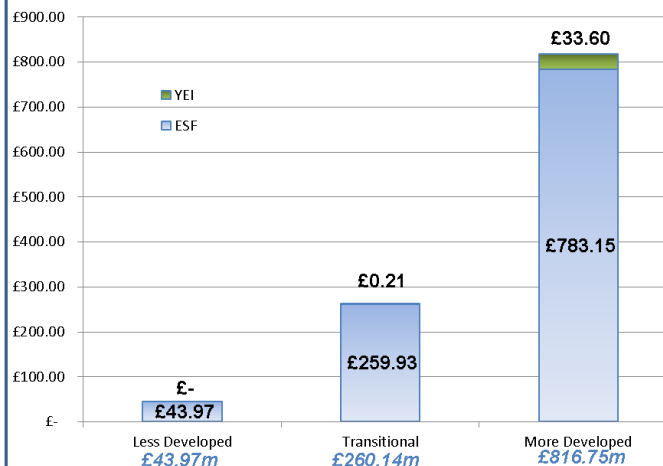
Remedial action is required if:

- The Project Profile (solid red line) is below the Target (solid blue line); or
- The Target Actuals (dotted red line) is below the Project Profile (solid red line).

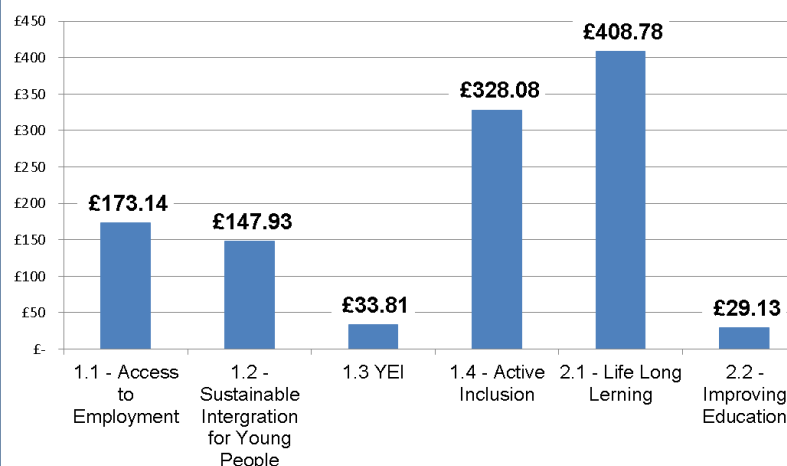
## Annex E – Growth Programme Board Dashboard

### European Social Fund 14-20 Programme – Headline Performance

**Value of Funding Agreements (£m) by CoR**



**Value of Funding Agreements (£m) by Investment Priority**



#### Headline Messages

- The Minister for Employment officially launched ESF 14-20 Programme on 25<sup>th</sup> January 2016.
- ESF have published 26 calls (including YEI, CLLD and TA) with a total maximum value of £291.8m.
- A total of 179 agreements are in place; 174 Memorandum of Understandings and 5 Funding Agreements.
- Until ESF have an IT system in place we are using an interim spread-sheet system to record M.I reporting.

#### Risks and Issues

- Changes in DWP and SFA present a risk of securing **match funding**. This, in turn, risks the achievement of **financial and output targets**.
- **Delays in programme start up** causes three risks to the programme budget in England.
  - First, that the MA will not achieve the **activity based targets** needed by 2018 to release the performance reserve.
  - Second, that the programme does not achieve '**N+3**' **financial targets**, leading funds to be returned to the Commission.
  - Third, that **YEI**, which is time limited/front loaded, will not be fully spent, again leading funds to be returned to the Commission.
- There is an overarching risk of **non-compliance**. The range of requirements and diversity of delivery agents is extensive, changeable and open to interpretation in many cases. This ensures the risk of actual or perceived non-compliance is raised.
- The programme is dependent upon timely delivery and operation of an effective **IT system**.

## Annex F

### Progress against the performance framework targets

1. As the performance management strategy paper explains, achievement of the targets in the performance framework releases the performance reserve, which is worth 6% of the programme. Although the data which feeds into the performance framework (spend and number of participants) will also need to be reported separately in more detail, the importance of the performance framework itself means that progress towards these targets will be presented in a specific performance framework targets paper.

### Financial performance

2. We will provide summary information on the financial performance of the programme. This will include:
  - **Overall spend of the programme to date**  
This will include actual spend against profile split by CoR for ESF spend and public match.
  - **ESF allocation and N+3**  
Progress against the next annual N+3 targets in each CoR.
  - **Overall Spend by CoR, Priority Axis and Investment Priority**  
This will display ESF and match spend for each PA and IP in each CoR.

### Programme Outputs

3. We will provide the following information on outputs (NB all outputs are expressed as numbers):
  - **Overall output of the programme to date (National)**  
We will provide a summary table which focuses only on the total number of participants against the targets. This will be presented by Investment Priority in each CoR.
  - **Outputs by priority axes and IP against each target**  
We will provide tables for each investment priority which show progress against each of the output targets. This will be split by CoR (except for YEI where the target is a single number).

### Programme Results

4. We will provide the following information on results (NB all results are expressed as percentages of total participants):
  - **Results by priority axes and IP for each indicator**  
We will provide results for each IP. The data will be presented for each result

indicator and target value, split by CoR, with the exception of 1.3 (YEI) where we are not required to report by CoR.

### Technical Assistance

5. Spend on Technical Assistance (TA) will be included in the overall financial performance tables. Since the output and result targets for TA are of a different nature, we do not propose including them in the output and results section of the standard performance report. We recommend that we follow the practice in the 2007-13 programme of having an annual paper for the GPB which focuses in more detail on TA.

### In-depth equality analysis

6. Many of the output targets are designed to enable us to monitor how the programme is performing in relation to equality issues. The wealth of other data we will have will enable us to monitor other issues (e.g. whether women have better or worse results). Rather than producing data on these issues as a matter of routine, we suggest that “deep dives” on these issues are scheduled for the GPB national level sub-committees as appropriate, and that they then report to the GPB.

#### **Response from GPB;**

- **A deep-dive analysis on equality and cross-cutting themes would be helpful for both ESF and ERDF programme**

### Co-Financing Organisations (CFO)

7. We would not normally report on the performance of any single project / beneficiary to the GPB, since their focus should be on overall programme level performance. Where the national performance is being significantly affected by one project / organisation then we would of course explain this in our analysis.
8. However, since the sum of all operations led by the national CFOs amount to a substantial share of the ESF programme, we could, as we have done in the 2007-13 programme, provide separate performance papers covering the performance of each of the national CFOs. This would clearly mean 5 reports (national, NOMS, DWP, SFA, Big Lottery) rather than just one (national), so we would welcome GPB views on whether we should:
  - produce these CFO reports at every meeting;
  - produce a report for each of the CFOs on a rotation basis– enabling more detailed scrutiny of their performance;
  - produce a separate report only where the MA concludes that there are significant issues with one of more CFOs which are worth highlighting to the GPB;
  - produce CFO data for each meeting but no narrative, enabling the GPB to request more analysis at a future meeting.

#### **Response from GPB;**

- **The Board welcomed the proposal for performance data on co-financing organisation (CFO) being brought to each meeting, but the timeframe for presentation and analysis would need to enable the Board to understand and address performance issues as near to 'real time' as possible. The Board also requested that direct bids and CFO level of data be presented to enable the Board to identify patterns in performance.**
- **The European Commission asked that more in depth CFO performance data be presented at each meeting, taking each CFO in turn. The Commission also asked that the Board consider community grant performance in one specific report a year.**