



European Union
European Structural
and Investment Funds

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

Growth Programme for England

ESI Funds Growth Programme Board

Structural Funds Performance Management Strategy Guidance 2014 - 2020 ERDF Programme

Purpose:

To seek the Board's approval of the Structural Funds Performance Management Strategy Guidance attached at Annex A.

Recommendation:

The Board approval of the Structural Funds Performance Management Strategy Guidance.

Summary:

The draft Structural Funds Performance Management Strategy Guidance sets out:

- The roles and responsibilities of the managing authorities and local partners in managing performance.
- The different types of targets in the operational programmes and the consequences of not meeting them.
- How the managing authorities will seek to proactively manage performance so issues are identified and addressed quickly, when performance will be reviewed and the remedial action that will be taken if required.
- The processes that local partners can use to resolve disputes with the managing authority.
- The impact on LEP area allocations if programme level targets are not met.

The Guidance was discussed at the Performance and Dispute Resolution sub-committee meeting on 12th May and has been updated in line with written comments received from members following the meeting. The exception is the request for more detail on the process for LEP areas being able to swap allocations at a priority axes level. This is because the Managing Authorities are still working up the detail of the process.

Following the Board's endorsement of the Guidance it will be shared with local partners once the actions in paragraph 10 below have been completed.

Background

1. Results and output targets, milestones and financial expenditure targets are set out in the ERDF and ESF Operational Programmes.

2. Successful delivery of ERDF and ESF Operational Programme targets will require effective management and monitoring of local performance, which will be the basis and means for the achievement of all Operational Programme targets. Local ERDF GDTs and ESF DTs will therefore manage local delivery within this context, and feed into Operational Programme performance monitoring, including any issues which may impact on the delivery of specific national programme targets.
3. The Operational Programmes have four types of targets:
 - Result measures;
 - N+3 expenditure targets;
 - Performance framework targets; and
 - Priority axis investment priority targets.
4. Failure to meet N+3 and performance framework targets can result in the programme incurring financial consequences for the national programme and consequently local areas.
5. The managing authorities are seeking to take a proactive approach to performance management. To facilitate this the managing authorities are putting in place:
 - Guidance to ensure well informed project appraisal and approval ;
 - Effective management information;
 - Systems to manage performance at a project level;
 - Regular reviews of progress against programme performance; and
 - A clear approach to taking remedial action if required.
6. The Strategy also recognises that there may be instances where issues cannot be resolved with the managing authorities at the local level. Where this is the case local partners will have recourse to discuss the issues with senior management in the respective managing authority. Where the issue cannot be satisfactorily resolved through that route then it can be considered by the Growth Programme Board for their advice.
7. Lastly, the Strategy sets out the consequence of missing programme level targets on local area allocations.

Performance and Dispute Resolution sub-committee Input

8. The Guidance was discussed at the Performance and Dispute Resolution sub-committee meeting on 12th May and has been updated in line with written comments received from members following the meeting.
9. There are a some exceptions where the Managing Authorities need to draw up and/ or finalise the detail. This relates to requests for:
 - More detail on the process for LEP areas being able to swap allocations at a priority axes level;

- A flow diagram setting out the dispute resolution process; and
 - A list of the senior officials in the Managing Authorities to whom local partners can lodge any issues of dispute.
10. The Managing Authorities will look to address the points in bullets two and three in advance of circulating the guidance to local partners.
11. A detailed proposal covering the process for LEP areas being able to swap allocations at a priority axes level will be put before the next Performance and Dispute Resolution sub-committee meeting.
12. Members also raised several points which the Managing Authorities will take on board but do not require an update to the Guidance itself. These are:
- Timescales on the availability of ECLAIMS reports. Currently the expectation is that these will be available in September;
 - The detail of the interim reporting solution prior to ECLAIMS reports being available. The template for these reports were discussed at the sub-committee meeting future iterations will also be discussed in the group; and
 - There should be a mechanism for recognising good performance and also sharing the good practice that resulted in it. Proposals for how this can be best be addressed will be discussed at the next Performance and Dispute Resolution sub-committee meeting.

Next Steps

13. Following the Board's endorsement the Guidance will be shared with local partners once the actions in paragraph 10 above have been completed.

Simon Jones
DCLG

**PERFORMANCE MANAGEMENT STRATEGY GUIDANCE
EUROPEAN REGIONAL DEVELOPMENT FUND (ERDF) and
EUROPEAN SOCIAL FUND (ESF) 2014-20**

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Purpose

1. This guidance sets out the strategy for managing performance milestones and targets for the 2014-20 European Regional Development Fund (ERDF) and European Social Fund (ESF) Operational Programmes. It should be noted that although the Growth Programme includes an element of the European Agricultural Fund for Rural Development (EAFRD) performance management of that element will fall under the specific arrangements for the Rural Development Programme for England (RDPE).
2. Performance targets will be managed in relation to ERDF and ESF Operational Programmes for England that cover all categories of regions (Less Developed, Transition and More Developed) that will be delivered across 39 Local Enterprise Partnership (LEP) areas.
3. This guidance applies across all types of local governance systems including sustainable urban development, community led local development and intermediate bodies.
4. The guidance has been developed in line with the performance management general principles agreed by the Growth Programme Board 9th December 2014, as set out at annex 1.
5. A key element of the performance management strategy is to ensure that performance issues do not arise in the first instance. As set out below this requires a common understanding at both local and national level what is required to successfully deliver the Programme and to have access to adequate management information to monitor local and national progress against targets.

Background

6. Results and output targets, milestones and financial expenditure targets are set out in the ERDF and ESF Operational Programmes. The European Regulations (EU Regulation 1303/2013) for 2014-20 places a much stronger focus on the achievements of results. The results that have been selected in the ERDF and ESF Operational Programmes define the specific changes that will be achieved by outputs that are produced by projects supported by both Funds. This approach and the relationship between results and outputs are known as the 'intervention logic'. A more detailed description of the ERDF Programme intervention logic is provided in Annex 2.
7. Successful delivery of ERDF and ESF Operational Programme targets will require effective management and monitoring of local performance, which will be the basis and means for the achievement of all Operational Programme targets. Local ERDF GDTs and ESF DTs will therefore manage local delivery within this context, and feed into Operational Programme performance monitoring, including any issues which may impact on the delivery of specific national programme targets.

Roles and Responsibilities

8. The ERDF and ESF Managing Authorities (respectively, the Department for Communities and Local Government – DCLG – and the Department for Work and Pensions – DWP) are responsible for the achievement of ERDF and ESF Operational Programme targets. The ERDF and ESF Managing Authorities will deliver these responsibilities through centrally co-ordinated teams and local

Growth Delivery Teams – GDTs - (for ERDF) and Delivery Teams – DTs - (for ESF).

9. The joint England Programme Monitoring Committee (PMC) for ERDF and ESF Operational Programmes (known as the Growth Programme Board) will review and provide opinion on the implementation of the ERDF and ESF programmes, including the delivery of targets. The Growth Programme Board will be supported by the Performance and Dispute Resolution Sub-Committee.
10. Partners will provide advice on local implementation (including the delivery of notional local targets) to the ERDF and ESF Managing Authorities through local LEP Area European Structural and Investment Funds sub-committees.
11. The individual processes for managing the delivery of ERDF and ESF targets, which will be closely aligned, are set out in this guidance.

Operational Programme Targets

12. The Operational Programmes have four types of targets; these are summarised in Annex 3.

Result Measure

13. For ERDF and ESF each Priority Axis has a Result Measure against which the investments made under that Priority Axis are intended to impact upon. These Results Measures are very high level and are monitored at a national level only.

N+3 expenditure targets

14. For ERDF and ESF the European Commission provides the Programme funding allocation on an annual basis. Funds must be defrayed, certified and claimed from the Commission within three years of the year in which they are allocated;

this requirement is called the N+3 target. The N+3 target is slightly lower than the annual allocation itself as it excludes pre-financing and performance reserve commitments. This will be measured annually at programme and category of region level. The first target will be for the end of 2018, given the date of adoption of the two operational programmes.

Performance Framework Targets

15. There are three types of performance framework targets: output, implementation steps (milestones) and spend targets for 2018 and 2023. These targets sit at priority axis level by category of region. The financial targets are based on total eligible expenditure (EU funding plus match). Achievement of the 2018 targets is required to release the performance reserve in 2019. The performance reserve is generally six per cent of the priority axis level by category of region allocation in the ERDF Operational Programme. The exception is priority axis 3 (SME competitiveness) where the performance reserve is slightly higher. For the ESF Operational Programme, the performance reserve is about 6.25% per cent of each priority axis. This is to ensure the total is 6% across the whole programme when technical assistance is taken into account.

16. The LEP area notional allocations includes the performance reserve, however this element of the notional allocation cannot be committed until the performance reserve has been released in 2019.

Performance Framework Targets in 2018

17. The Commission will conduct a formal review of the 2018 Targets in 2019. The review will consider delivery against the targets in each priority axis by category of region. In order to successfully deliver the required target each priority axis by

category of region must achieve at least 85% of the targets; this would result in release of the performance reserve to the national operational programme concerned. Below 85% will result in the performance reserve not being released to the Priority Axis and category of region within the national operational programme concerned. Below 65% could result in the Commission suspending payment to a priority axis by category of region within the operational programme concerned.

Performance Framework Targets in 2023

18. At the end of the programming period, the Commission may apply financial corrections for those priorities that have seriously underperformed against their targets in 2023, due to clearly identified implementation weaknesses. This will be assessed at the closure of the programme.

Priory Axis Investment Priority Targets

19. There are two targets at this level, output and, in the case of ESF, 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.

20. However, as set out in paragraph 18 above the Commission's may apply sanctions if the performance framework indicator targets are not achieved by the end of the programming period.

A Proactive Approach to Performance Management

21. As set out above failure to meet certain targets will have financial consequences for the national programme and consequently local areas. A key element of the performance management strategy is to ensure that performance issues do not arise in the first instance. This requires a common understanding at both local and national level what is required to successfully deliver the Programme and to have access to adequate management information to monitor local and national progress against targets.

Informed Project Approvals

22. Decisions that will impact on the performance of the national programmes will be taken by the Managing Authority (MA) at both local and national levels including through intermediate body delegations. It is important that the work of those assessing and agreeing projects at the local level is informed by a common understanding of what is required to deliver the national programme both from the perspective of value for money and eligibility. This will be achieved through the provision of comprehensive and clear guidance, for example, on eligibility rules¹ and output definitions².

23. In addition, where an individual in the MA working on project approvals at the local level needs clarification there is a clear system for getting advice from the national policy team and for that advice to be easily accessible to all across the relevant MA.

¹ Most publically available guidance including that on eligibility rules can be found here: <https://www.gov.uk/government/publications/european-structural-and-investment-funds-programme-guidance>

² Guidance on output and result definitions can be found here: <https://www.gov.uk/government/publications/european-structural-and-investment-funds-outputs-and-results>

Effective Management Information

24. To properly understand the consequences of individual decisions in the context of a national programme management information needs to be made available both at the local and national level. In addition, the management information needs to be sufficiently detailed so that progress against targets can be understood by priority axes, category of region, LEP area or other required geographies. This will be provided through ECLAIMS although interim solutions will be required in advance of the system being fully operational.
25. Managing Authorities will use the management information to understand progress against targets both at the local and national level to establish and evidence why and when remedial action needs to be taken.

Performance Management of Projects

26. The success of the national programme is dependent on projects delivering against the targets set out in their grant funding agreements. As such the Managing Authorities will put in place performance management measures for individual projects. These measures as well as providing appropriate support will include grant reduction for underperformance as a last resort.

Reviewing Performance

27. At a LEP area level the relevant local MA team will update the local ESIF Committee at each meeting on progress against targets. The MA team will flag at the earliest opportunity the need for remedial action to be taken.

28. At a national level performance against targets will be reviewed on a quarterly basis firstly by the Performance and Dispute Resolution Sub-Committee and then a month afterwards by the Growth programme Board.

29. Performance reviews both at the local and national level will:

- Assess the progress against the targets in the OPs;
- Look at trends in meeting or failing to meet targets;
- Identify issues which may be impacting progress; and
- Provide evidence if change to the OPs or other processes are needed.

Taking Remedial Action

30. As set out above through the proper use of management information and having regular reviews on progress against targets timely remedial action can be taken to avoid any long term performance issues.

At the Local Level

31. Based on a sound evidence base the Managing Authority, at the earliest opportunity, will flag up to the local ESIF Committee where it is at risk of missing its contribution to the national performance framework targets.

32. In providing this advice the Managing Authority will have taken into consideration, through proper consultation with national policy leads, whether the shortfall:

- can be absorbed in the wider national programme; and/ or
- is a consequence of a broader issue affecting other LEP areas that requires a more co-ordinated resolution.

33. If neither of the above reasons are applicable then the Managing Authority will propose the remedial action that needs to take place.

At the National Level

34. Where the Managing Authorities identify issues that are impacting on multiple LEP areas they will take appropriate remedial action. The issue and the action taken will be communicated to the Performance and Dispute Resolution Sub-Committee and if required to the attention of the GPB. All GDTs will also be made aware so that it can be taken into consideration when reviewing performance at LEP Area level.

35. One means of helping improve LEP areas performance is to provide an opportunity for LEP areas to exchange their Priority Axis level notional allocations and associated outputs with other LEP areas. This would not see a reduction in LEP area's overall notional allocations just changes to the amounts in each Priority Axis. To ensure this exchange maintains the OP allocation envelopes the process would need to be managed at the national level. Furthermore for it to have any impact on 2018 targets the first of these centrally managed exchanges would need to happen towards the end of 2016.

Dispute Resolution

36. There may be instances where the local partners do not agree with the advice of the local Managing Authority team. In the first instance local partners have recourse to discuss the issue with senior management in the respective Managing Authority.

37. Where the issue cannot be satisfactorily resolved through discussion with the respective Managing Authority then it can be considered by the Growth

Programme Board for their advice. In these instances the Managing Authority and the relevant local partners will be required to set out written arguments for why they advocate their respective course of action.

38. In the first instance these arguments will be reviewed, subject to appropriate conflict of interest checks, by the Performance and Dispute Resolution Sub-Committee. The Sub-Committee will check the papers to ensure the quality of the evidence provided and potentially seek clarification from either party as required.

39. The Sub-Committee will then pass the papers, along with a recommendation, to the Growth Programme Board for further discussion. Local partners will be allowed to attend the meeting and verbally present their case if they wish.

40. The Growth Programme Board will provide a final opinion on the dispute. Either party will have the right to appeal against the final opinion via Ministers.

Missing Programme Level Targets: Impact on LEP Area Allocations

41. The actions set out in the above section are intended to avoid a situation where targets are missed at a Programme level and financial penalties incurred. However, if financial penalties are incurred then the impact on LEP area allocations will be as follows.

N+3 expenditure targets

42. Where ERDF and ESF Operational Programme N+3 expenditure targets are met in each category of region but are not met in specific LEP areas, there will no action taken to reduce local notional allocation in such LEP areas.

43. If N+3 targets are not met nationally 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 investment in the affected Operational Programmes and categories of region. In such cases, notional allocations will be adjusted in the affected LEP areas on a pro-rata basis to the extent of underspend.

Performance Framework Targets in 2018

44. If all targets are met for 2018 in the performance framework for each Priority Axis and category of region, as a general principle, all areas will 'benefit' even those areas where local targets have not been met. As notional allocations already include the 6%, this would mean that, LEP areas will not receive any additional funding.
45. If the national targets are not met for 2018, the performance reserve that had been set aside for the failing Priority Axis will have to be moved to another Priority Axis in the same category of region provided this is consistent with thematic concentration requirements and can be absorbed. The relevant Managing Authority would make a proposal to the Commission as to which Priority Axis the performance reserve would be moved after consulting the Growth Programme Board. The affected LEP Areas would have their Priority Axis notional allocations updated accordingly. Any changes to Operational Programmes would need the Commission's approval and the process will take a number of months to complete.
46. Those areas that did not meet their targets will have already been subject to a review of their performance in the run up to 2018 as set out in the remedial action section above.

47. In the event of the priority axis being suspended, due to not reaching 65% of its targets, it would be up to the EDRF and ESF Managing Authorities to work with the Commission to resolve any issues before this action is taken. This could result in funds being suspended locally including any planned investments in that failed priority axis until the issue is resolved.

Performance Framework Targets in 2023

48. The Managing Authorities would have to absorb any financial penalties arising. Given that this penalty is imposed at the end of the programme it would have no impact on LEP area allocations.

Priory Axis Investment Priority targets

49. It is not anticipated that LEP areas would be penalised for not meeting these output and result targets, however, partners in conjunction with the local MA team should be able to explain why this is the case. These reports should be drawn together into a national report on IP level progress which will enable the MAs and the Growth Programme Board better understand the underlying issues and take appropriate remedial action.

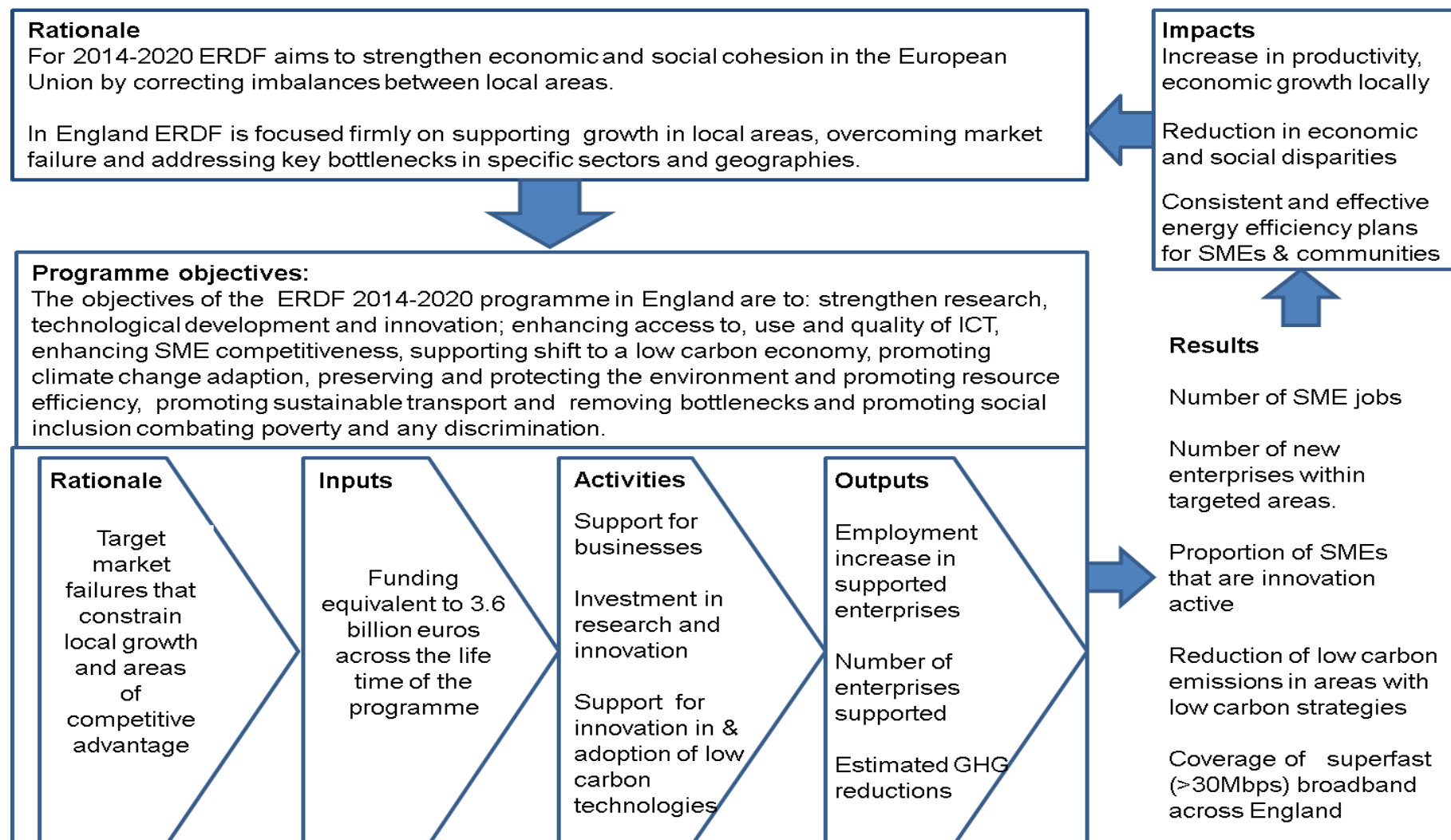
Annex 1 - Performance Management General Principles agreed by the Growth Programme Board 9th December 2014

- 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 2: Intervention Logic Model for the 2014-2020 European Regional Development Fund in England



Annex 3: Target Output Summary Overview

Target	Consequence of Missing Target	Level Target Applies
Result Targets	Reputational.	Programme
Performance Framework Financial	2018 – Reallocation of relevant PAs performance reserve allocation. 2023 – Financial penalty.	Priority Axis by Category of Region
Performance Framework Non-Financial		
N+3	De-commitment.	Category of Region
Investment Priority Outputs	Reputational.	Programme