



European Union

European Structural
and Investment Funds

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

Growth Programme for England

ESI Funds Growth Programme Board

ERDF Programme Delivery

Purpose:

To advise the board on progress with European Regional Development Fund (ERDF) Programme delivery to 30 September 2017.

Recommendation(s):

That the Growth Programme Board note the current position.

Summary:

Overall Progress on Contracting

As at 30 September, 456 projects with ERDF funding of £1220m have been contracted. Compared to the previous quarter, to 30 June 2017, this is an increase of 15 contracted projects, for an additional £39m ERDF. The figure is lower than forecast mainly due to the GLA financial instruments now not expecting to contract until the end of quarter 4 2017. Overall, 43% of the programme budget has been contracted. For the less developed region 57% of the ERDF funds has been contracted; for transition and more developed regions, 37% and 43% have been contracted respectively.

Following closure of the June/July calls in September, there are 349 applications currently being assessed for £721m ERDF (including 3 financial instruments). This represents 25% of funds allocated to England.

Overall Progress by Priority Axis (PA)

The operational programme modification was submitted formally to the Commission in July and it is anticipated that the modification will be adopted formally in November.

Overall, the forecasts from projects already contracted suggest the programme will meet its 2018 performance framework targets for PA1 (all regions), PA2 (less delivered region and transition regions, and more developed expenditure target, PA3 (all regions), PA4 (less developed region only), and PA7.

There are some areas of the programme where the current data suggests that meeting the 2018 performance framework targets will be challenging. Delivery risks remain for PA2 more developed regions output targets, PA4 (transition/more developed regions), and PA5 / PA6/ PA8 (all categories of region).

Overall Progress – Expenditure

The managing authority's focus remains on supporting partners to submit claims in a timely way. Encouragingly, the rate of claims per month is increasing. Cumulative claims paid by the managing authority total £164m to September, an increase of £45m from the previous quarterly.

Targets and Programme Performance

Based on planning assumptions and data from contracted projects, the managing authority is confident in meeting the 2018 N+3 target.

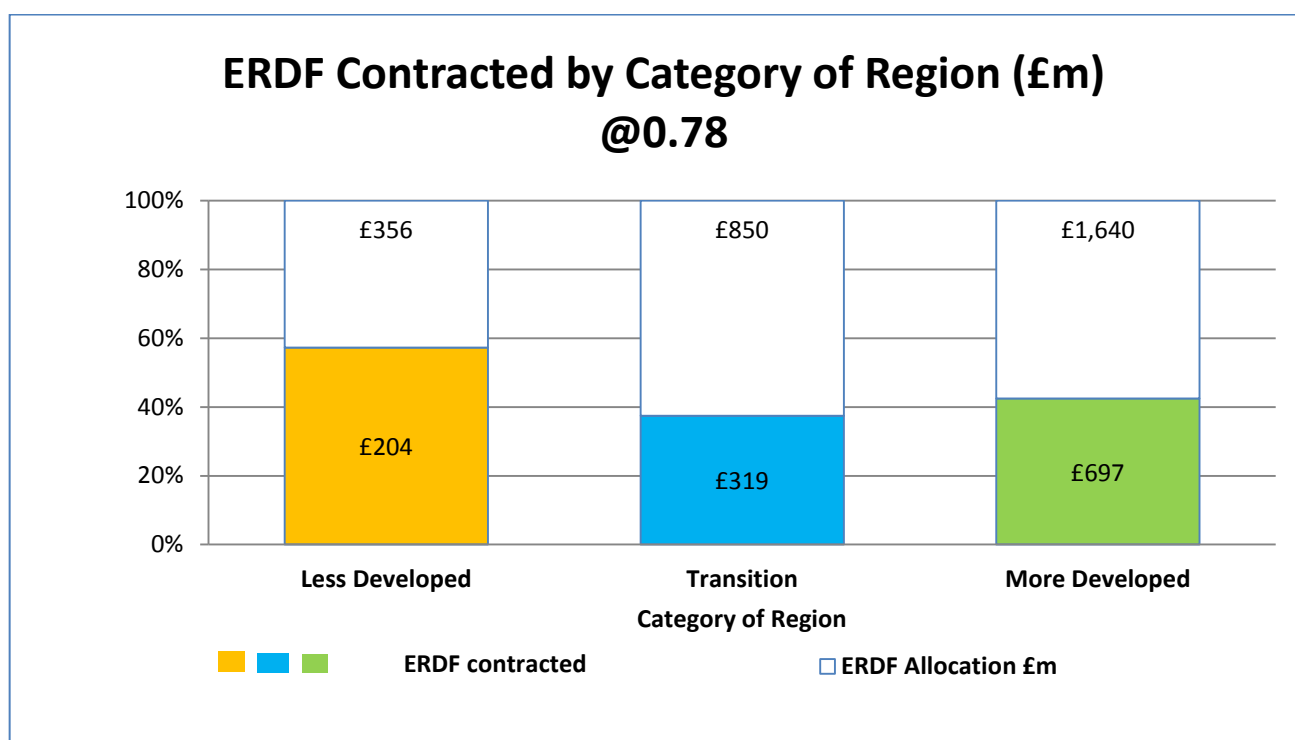
A new call for projects was issued in September for £267m. A further call round is scheduled in December. Additionally, a further call in March 2018 is proposed.

Programme Delivery Report to 30 September 2017

1. The ERDF 2014 to 2020 Programme value is €3649m. Using the exchange rate of €1 = £0.78, values the programme at £2846m. This represents an increase of £16m following the programme modification.
2. The rate of 0.78 is used throughout this report except in relation to the certifying authority payment applications which is based on the actual exchange rate at the time of submission.
3. Forecast expenditure from contracted projects is discounted by 30 % to reflect project slippage and audit issues. Forecast performance framework outputs from contracted projects are discounted by 20%. The discounts reflect operational experience.

Programme Budget & Contracting

4. The chart and table below shows the amount and % of ERDF funds that have been contracted, by category of region, compared with the programme's budget (or allocation).



5. As at 30st September, 43% of the total budget has been contracted. By Category of Region this is less developed; 57%, transition; 37% and more developed; 43%.

Category of Region	ERDF Allocation £m	ERDF Commitment £m	ERDF Commitment %	ERDF Commitment & Pipeline %
Less	£356	£204	57%	78%

Developed				
Transition	£850	£319	37%	65%
More Developed	£1,640	£697	43%	68%
	£2,846	£1,220	43%	68%

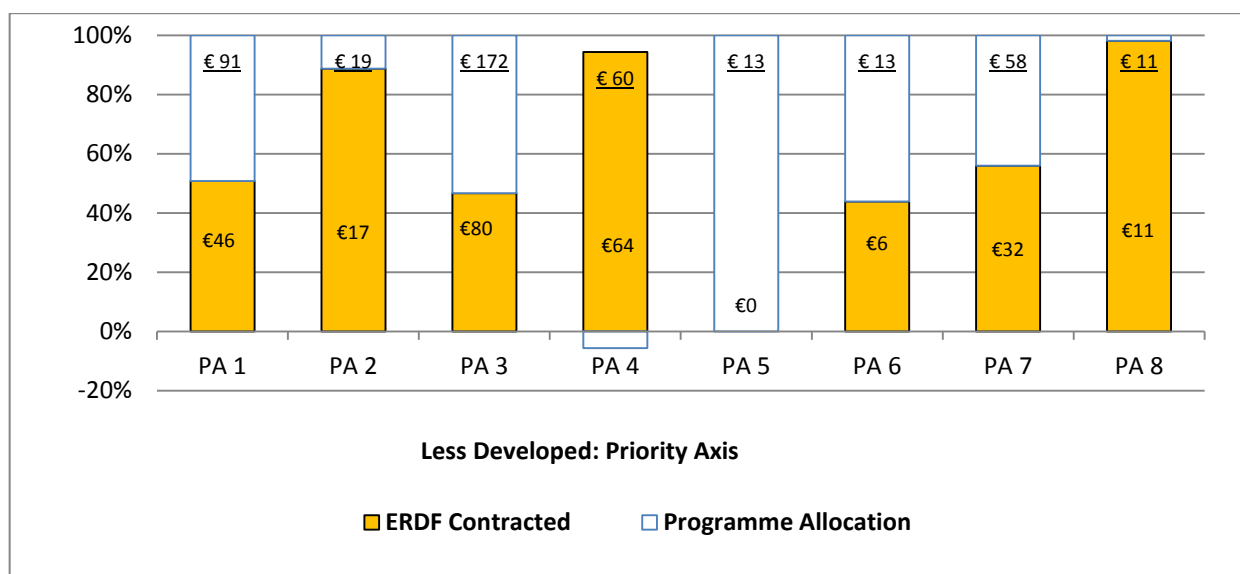
* Some further reallocation expected linked to European Social Fund activity

6. The ERDF value of projects contracted and applications in the system amount to 68% of the programme budget (805 projects at £1941m). With an intervention rate of 80% the less developed region continues to performing well overall in this respect.

By Category of Region

7. The charts & tables below show the contracted % by category of region and priority axis.

Less Developed Region: ERDF contracted by priority axis (€m)



PA1 - half of the target now contracted and meeting milestone target.

PA2 - contracted to 89% of the programme allocation. No further project applications in the pipeline.

PA3 - currently at 46%, and meeting the contracting milestone target.

PA4 - this priority axis is now contracted against the modified programme allocation

PA 5 - no projects have been contracted. There remains a project for £2m with a funding agreement in development, and over £8m at full application stage. Discussions with the Environment Agency aim to prioritise activity for contracting as ERDF is dependant on EA confirming match funding in individual projects .

PA6 – contracting has been impacted by demarcation with the Countryside Stewardship so there is limited scope for projects. To date applications have been received for 60% of the budget and 43% contracted

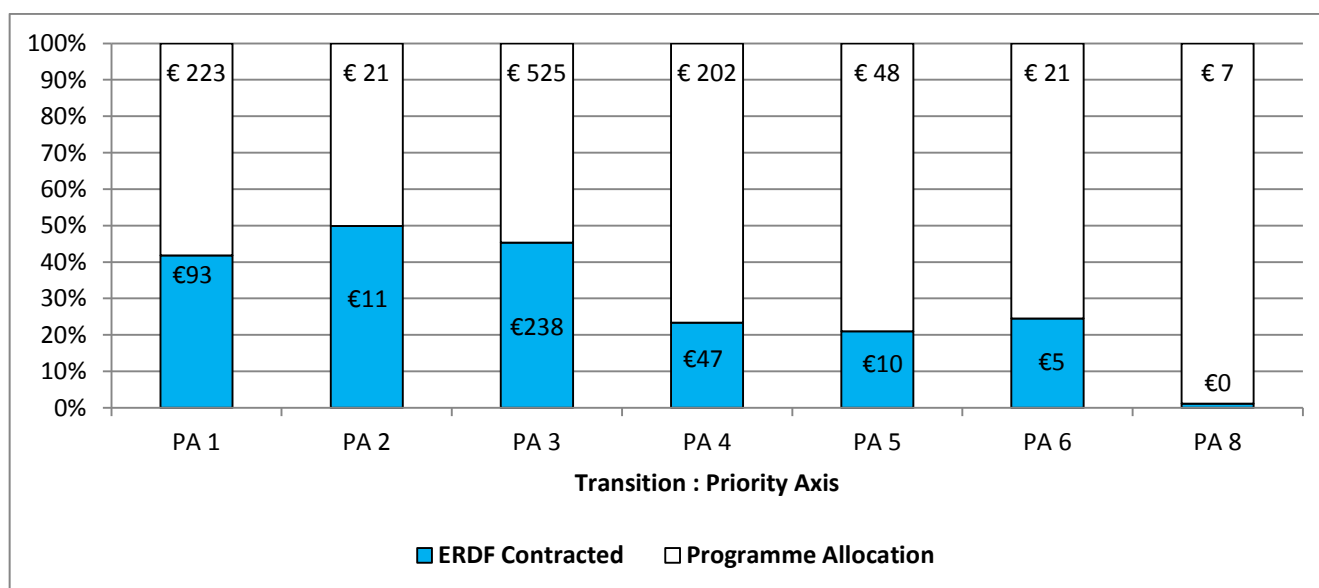
PA7 - is only open to Cornwall and Isles of Scilly as the less developed region. It focuses on improvements to road networks and transport infrastructure to reduce transport costs and travel time and facilitate a shift to a low carbon, sustainable transport network. Contracting levels are on track.

PA8 – £9m has now just been contracted taking the commitment level to 98%. However slippage is an issue in Community Led Local Development (CLLD) implementation and the ability to increase delivery pace and meet expenditure targets is considered limited and a delivery risk.

Summary

Good progress overall. PA5 is a concern, as no contracts are in place, as well as PA8. This will be discussed further in the presentation to members.

Transition regions: ERDF contracted by priority axis (€m)



PA1 – contracting levels are a little behind although forecasts from contracted projects are on track to support the 2018 performance framework and output targets.

PA2 – contracting level is not high , however expenditure and output targets look deliverable.

PA3 –contracting levels, excluding financial instruments are below target although there appears minimal delivery risk in relation to expenditure and outputs

PA4 - There remains a significant gap between the contracting targets and actuals. The low contracting levels are impacting on achievement of the 2018 performance framework targets.

This is a significant delivery risk the Performance expenditure target given the size of the programme budget allocated to the PA.

PA5 – contracting levels are behind target compared to forecast and the 2018 performance expenditure target looks unlikely to be achieved. Discussions are underway with the Environment Agency(EA)to move forward projects, however it can take time to get EA approval due to their modelling and two stage process. Lead times and delivery risks make this very challenging

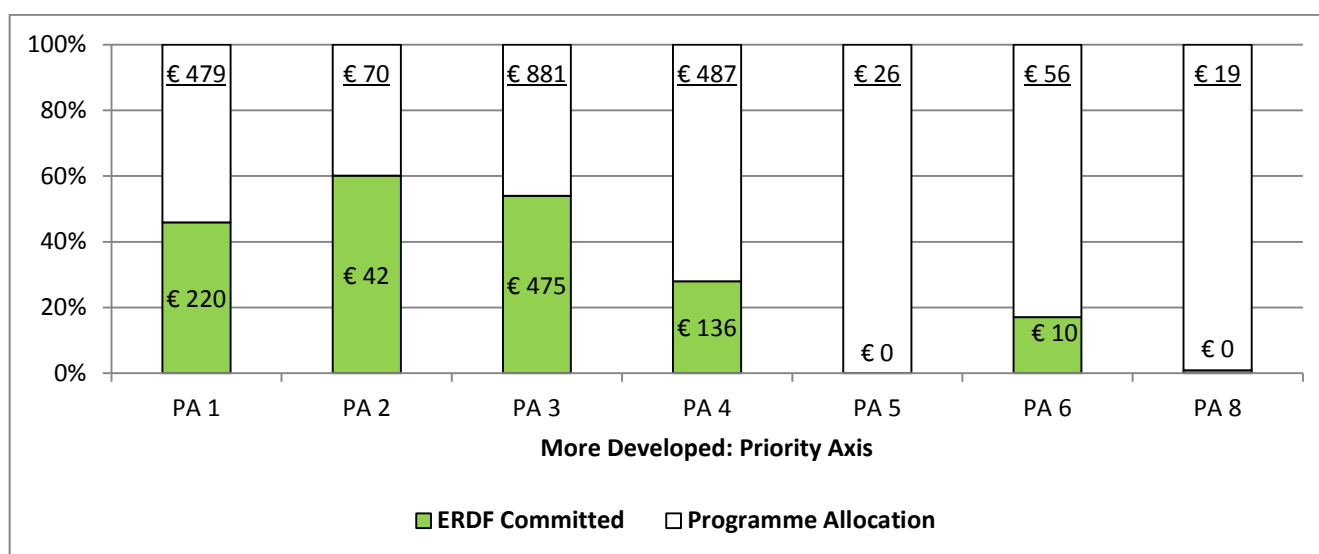
PA6 – contracting level is behind forecast. Delays in relation the Countryside Stewardship Scheme has impacted on delivery. Applications currently being processed will have little impact on the 2018 targets.

PA8 – there is significant delivery risk. The contracting of projects is subject to approvals from Department for Work & Pensions. On-going discussions to expedite decisions

Summary

Contracting levels in the transition region are currently insufficient, in relation to achieving 2018 performance framework targets; only PA1, 2 and 3 are on track. To be discussed further in the presentation to members.

More developed region: ERDF contacted by priority axis (€m)



PA1 – contracting rates behind target although expenditure and output targets are on track.

PA2 – contracting level is on target. 2018 expenditure targets are on track however outputs are challenging.

PA3 –contracting level is below the forecast target, excluding financial instruments, however 2018 performance framework expenditure and output targets are on track.

PA4 – a delivery risk with contracting levels behind target which will impact on achieving 2018 performance framework targets. The contracting of the GLA financial instrument will improve the position.

PA5 – no contracts in place but pipeline progressing and prioritised for 2018 delivery. However applications are limited with major risk to achieving priority expenditure targets.

PA6 – contract levels below target. Action planning is underway to identify mitigations that support improved performance under this PA. While there are projects coming through from Calls. The ability of these projects to meet the 2018 Performance framework is not high.

PA8 – there is significant delivery risk. Project contracting is subject to approvals from Department for Work & Pensions. On-going discussions to expedite decisions

Summary

Similar issues to transition regions. Current contracting levels are on target for PA1 and PA2 . The other priority axes are behind profile to a greater or lesser extent. Action planning is underway to mitigate and improve contracting rates for underperforming priorities. This will be discussed further in the presentation to members.

N+3 Decommitment Rule

8. The Commission will automatically decommit funds for which it has not received an acceptable payment request by the end of the third year following approval of the operational programme.
9. The England OP was approved in 2015, therefore the budget stated in our operational programme in this year has to be defrayed by the applicant as eligible expenditure and submitted in a Payment Application to the Commission by 31 December 2018 (with adjustments made for pre-financing). This process then applies cumulatively to future years of the programme in the same manner.
10. The table shows the N+3 targets we need to reach in order to prevent decommitment of funds. Targets are set at Operational Programme level and relate to ERDF only. The target is reduced by the value of payments submitted by the certifying authority to the Commission. Three payment applications to the Commission, totalling €123m, have now been made by the certifying authority.
11. N+3 is based upon the ERDF contribution towards total declared expenditure at the category of region intervention rate rather than the value of actual payments at the project level intervention rates.

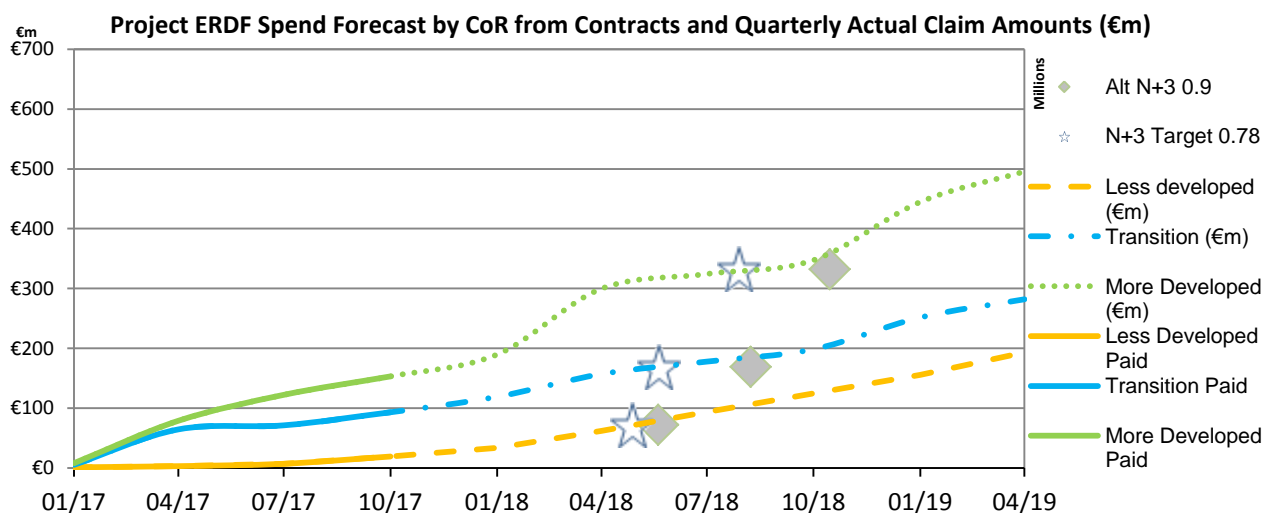
N+3 2018	Less Developed	Transition	More Developed
N+3 target for payment claims (€m)	€ 72	€ 169	€ 332
Less Payment applications submitted to the Commission at relevant exchange rate	€ 1	€ 56	€ 66
Current gap (€m)	€ 71	€ 113	€ 266
MA level :Total eligible cost paid, per category of region, at programme level intervention rate (80%, 60%,50%)	€ 18	€ 25	€ 78

12. The indicator at MA level, shown in the above table, shows the value of claims paid by the MA not yet submitted to the Commission for reimbursement.

13. The current N+3 forecast analysis:

- looks at claims paid
- reduces project spend forecasts by 30% for non-financial instrument projects,
- assumes that slippage will only be caught up at an average of 10% per quarter,
- assumes one drawdown from 7 financial instruments (4 contracted and 3 under development) to September 2018.

14. The chart below reflects the above provisos and also shows two exchange rate scenarios of 0.78 and 0.9. Under each scenario each categories of region will still meet their N+3 target. Compared to the previous quarter there has been some movement to the left reflecting new contracts in place.

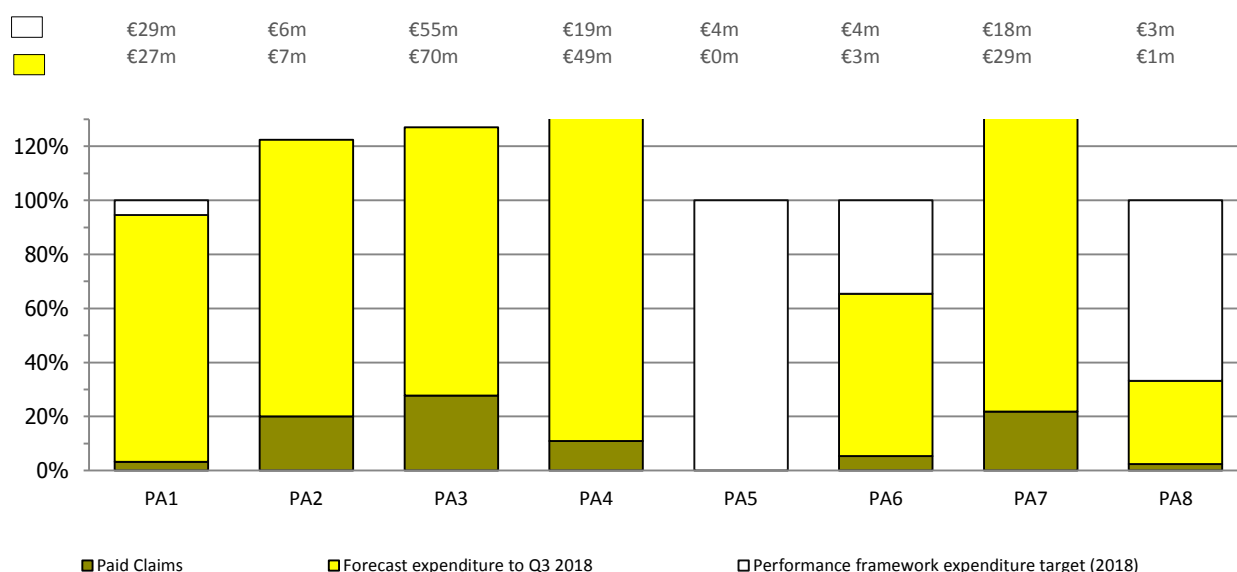


Progress against Performance Framework Expenditure Targets and Outputs

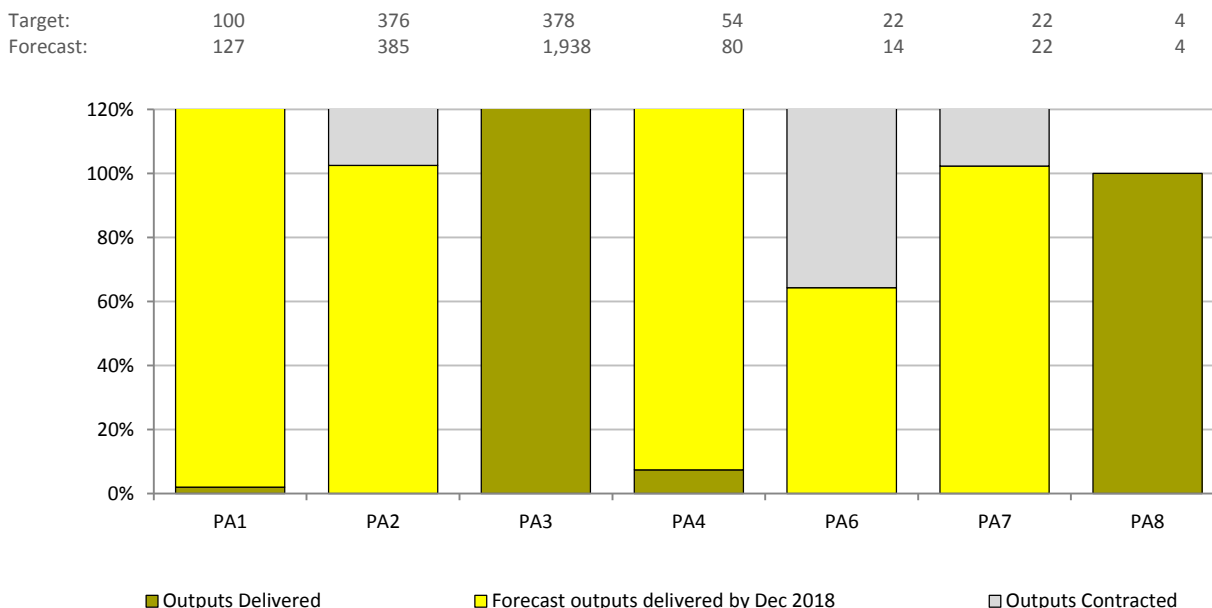
15. The targets in the charts reflect the modification targets to be achieved by December 2018. The targets are set at category of region level and by priority axis. The Commission deems the individual target to have been met when 85% or above has been achieved.
16. The forecast expenditure from contracted projects has been reduced by 30% for all projects except financial instruments. The reduction is based on anecdotal evidence from the 2007-2013 ERDF programme for project expenditure slippage rates.
17. The forecast outputs from contracted projects have been reduced by 20% for all projects. The reduction is based on anecdotal evidence from the 2007-2013 ERDF programme for output slippage rates (claims paid and outputs delivered are now also shown on the charts).

Less developed region:

Forecast expenditure from contracted projects (less 30% non FIs) against 2018 targets including paid claims (€m)



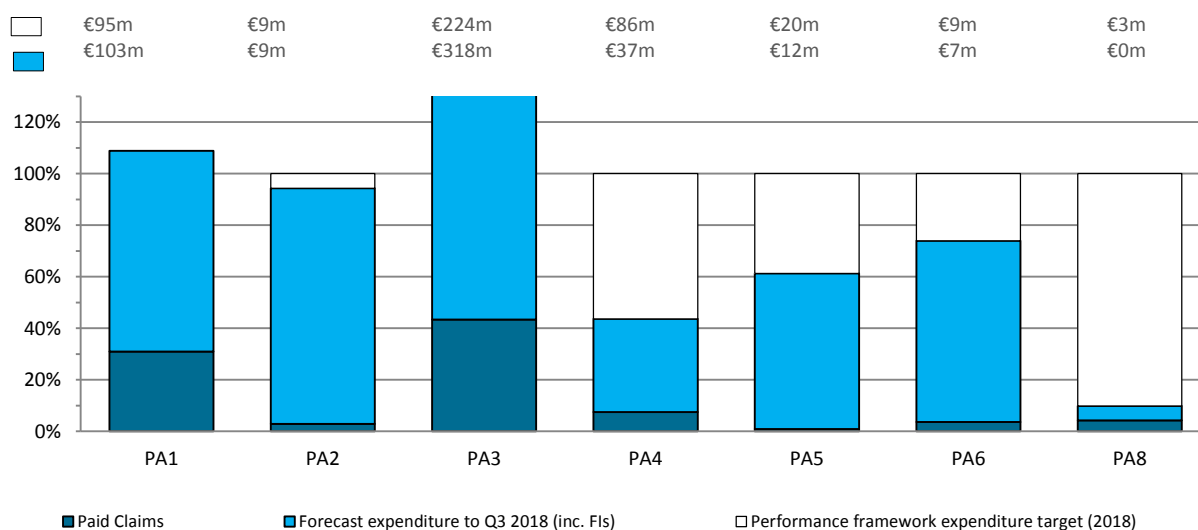
Forecast performance framework outputs from contracted project (less 20% all projects) against 2018 targets including outputs claimed



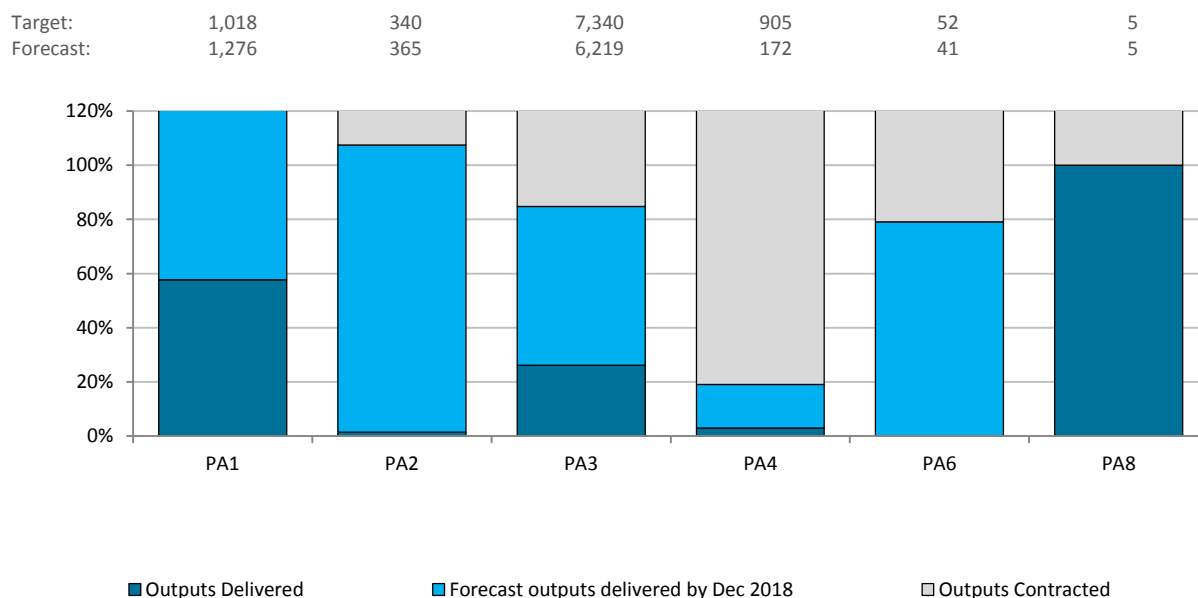
- PA1, PA2 PA3 PA4 and PA7 are forecasting to achieve the performance framework spend and output targets.
- Pleasingly, PA3 has met, it's albeit modest, performance framework expenditure output target.
- Across the region claims need to pick up particularly for PA1 and P2.
- PA6 needs close monitoring with a view to improving the forecast spend figure.
- PA5 and PA8 have significant delivery risks in relation to performance expenditure targets due to no contracts being in place (PA5) or the processes to go thorough before contracting means it is only recently that funds have been committed(PA8)

Transition regions:

Forecast expenditure from contracted projects (less 30% for non FIs) against 2018 targets including claims paid (€m)



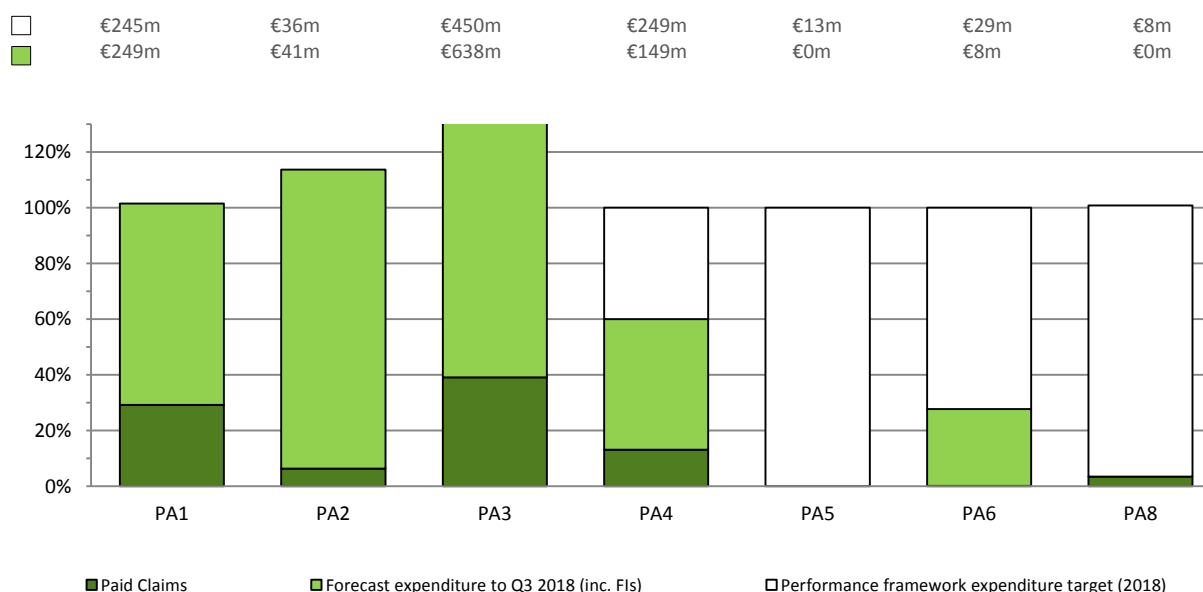
Forecast performance framework outputs from contracted project (less 20% all projects) against 2018 targets including outputs claimed



- The transition regions are forecasting to achieve PA1, PA2 and PA3 performance framework expenditure and output targets.
- Claim submissions need to pick up for PA2, PA4 and PA6.
- Delivery risks for PA4 and PA5 with a significant risk for PA8 in relation to expenditure. This will be discussed further with members in the meeting.

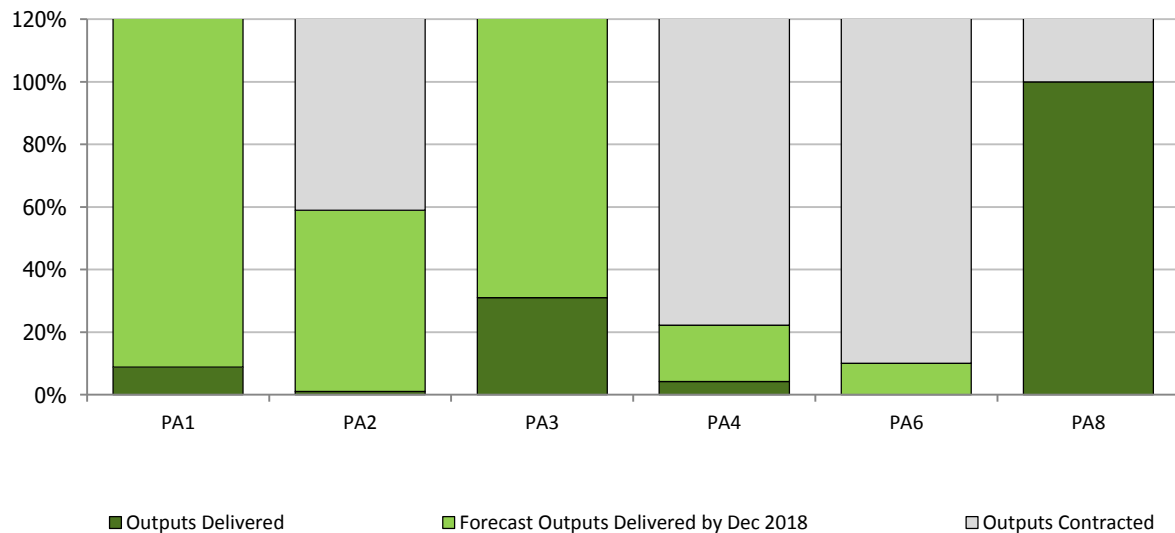
More developed region:

Forecast expenditure from contracted projects (less 30% non FIs) against 2018 targets including paid claims (€m)



Forecast performance framework outputs from contracted project (less 20% all projects) against 2018 targets including outputs claimed

Target:	2,532	1,555	9,821	2,592	186	13
Forecast:	4,530	917	16,827	576	19	13



- For more developed regions PA1 and PA3 are expecting to achieve the 2018 performance framework targets. Good progress is being made in relation to claim submissions for these 2 PAs.
- PA2 needs close monitoring to improve the output forecast position.
- The position on expenditure for PA4 should improve with the contracting of the GLA financial instrument and the subsequent 25% drawdown.
- There remains significant delivery issues under PA5 (expenditure), PA6 & PA8. To be discussed further with members.

Programme call schedule

18. The September call was launched in for £267m. A December call is about to be launched for circa £248m with a closing date of 26th January 2018.

Call window	Calls Published	Call Closing Date (fixed calls)
Sept 2017	22 September	10 November
Dec 2017	8 th December	26 January 2018
March 2018	Under consideration	

19. To note: Intermediary bodies (IB) and strategic urban development (SUD) calls are not required to follow this schedule and are subject to local/GDT agreement.

Financial Instruments

20. To 30 September 2017, the programme has four financial instruments (FIs) contracted for £337m ERDF. Three of these made their first drawdown of funds in March and May. When issues relating to EIB match are resolved the fourth FI will make its first draw down in early 2018. There are three other financial instruments in an advanced stage of development worth £107m. These remain on track and expect to be contracted and have drawn down their first tranche of funds in late 2017/early 2018. A further five smaller FIs are under development potentially worth an additional £45m ERDF during 2018

Community-Led Development (CLLD)

PA8 - Contracting				
	LEP	Application	Live	In GFA
	Allocation			
Transition				
Humber	£2,353,000	£0	£1,910,936	£441,000
North Eastern	£1,730,704	£0	£1,745,003	£0
York and North Yorkshire	£1,312,880	£0	£1,312,856	£0
Total	£5,396,584	£0	£4,968,795	£441,000
%	100	0	68	32
More Developed				
Leeds City Region	£6,254,435	£0	£54,435	£6,094,501
North Eastern	£2,662,533	£0	£46,863	£2,606,580
South East	£4,637,183	£4,623,927	£29,768	£0
York and North Yorkshire	£1,425,445	£0	£1,423,490	£0
Total	£14,979,596	£4,623,927	£1,554,556	£8,701,081
%	100	31	10	58
Less Developed				
Cornwall and the Isles of	£9,350,001	£0	£8,788,000	£0

Scilly				
Total	£9,350,001	£0	£8,788,000	£0
%	100	0	94	0
Total LEP Allocation PA8	£29,726,182	£4,623,927	£15,311,351	£9,142,081
%	100	16	47	35

21. No further rounds of CLLD calls are planned. The modification also reduces the output targets for priority axis 8; these revised targets can be achieved from the projects that are approved and in the pipeline. Performance framework targets in respect of approval of CLLD strategies have been met. Performance framework expenditure targets for 2018 will not be met; this reflects the timescales and funding profiles associated with CLLD

Compliance

22. The Commission requires an annual schedule of first level compliance checks to be undertaken by the managing authority (MA). The general principle of the A125 on the spot verification visit (OTSV) is to test that ERDF projects and financial instruments (FIs) are delivering their contracted requirements, in accordance with the regulations as set out in the Council Regulations (EC) 1303/2013 and identify any potential areas requiring correction. The work undertaken by the Compliance team provides assurance to the Commission whilst reducing the impact of irregularities on the MA error rate.

Visits Undertaken (2016 OTSV Schedule)	Value of claims selected for testing	Amount Tested	At Risk	At Risk %
142	£ 32,477,128	£ 22,678,584	£ 1,973,904	6.08%

Visits Undertaken (2017 OTSV Schedule)	Value of claims selected	Amount Tested	At Risk £	At Risk %
83	£ 122,953,926	£ 31,039,156	£ 826,328	2.66%

Progress on OTSV visit actions

	Number of actions raised	Number of actions closed	Actions open	Actions open more than 3 months
2017	158	120	38	20
2016	414	400	14	92

23. Monthly analysis of A125 visit actions is undertaken. Patterns and trends are identified and this is fed back into the business process; sharing lessons learnt and taking action to address areas of non-compliance.

24. Actions to date broken down by category

