European Union
European Structural and Investment Funds

European Structural and Investment Funds 2014 - 2020

Growth Programme for England

ESI Funds Growth Programme Board

Note for Information:
Management of the Foreign Exchange Rate (FOREX) for ERDF and ESF in the England ESI Funds Growth Programme and programme implementation across Local Enterprise Partnership areas

Purpose: To provide the GPB with an update on FOREX handling for ERDF and ESF and programme implementation issues in advance of a further paper for the March 2018 GPB meeting.
Recommendations: That the Growth Programme Board notes the paper.
Summary This note provides the GPB with an update on how FOREX is being handled for ERDF and ESF in England by DCLG and DWP respectively as Managing Authorities (MAs) for the funds. It also confirms a fuller discussion paper for the March 2018 meeting of the GPB.

Current FOREX rates for LEP area allocations and MA reporting

1. Both DCLG and DWP are managing ERDF and ESF to reflect the difference between the FOREX rate currently being used for LEP area allocations (£1=€0.78) and the current FOREX rate at which the Commission is reimbursing claims (£1=€0.90).

LEP area sterling valuation of allocations

2. Fluctuations in the FOREX rate are to be expected over the 10-year spending period of ESI Funds programmes. The exchange rate between sterling and euros has fluctuated significantly since the EU referendum. The FOREX rate used to calculate LEP area sterling valuations has not been adjusted since that point given the ongoing volatility of exchange rates. DCLG and DWP are ultimately responsible for managing spend in relation to these exchange rates and any financial liabilities that arise: if the total sterling value of ERDF or ESF expenditure exceeds the euro value of either programme allocation (when FOREX rate fluctuations have been factored in), then government will be liable for any excess expenditure.

3. The current euro - sterling valuation provides assurances for DCLG and DWP about exposure to excess expenditure. Both departments also need to manage scope for programme underspend. Equally, further fluctuations which resulted in the pound strengthening against the euro could create liabilities for each department. So FOREX rates require ongoing management.

Impact of exchange rates on performance targets

4. The exchange rate at which the Commission reimburses claims submitted by MAs impacts on ERDF and ESF financial targets. This is because while ERDF and ESF expenditure in England is in sterling, resulting claims reimbursed by the Commission are in euros – as are programme allocations and all financial targets. So the Performance Framework financial targets and N+3 spend targets are delivered on the basis of the exchange rate that applies when each claim submitted by each MA is reimbursed by the Commission. Since the value of sterling has declined markedly against the euro during the past 18 months and financial targets are set in euros, progress towards euro financial targets has been less strong.

Impact of exchange rates on performance reporting

5. MAs are responsible for managing and monitoring progress towards programme targets, including financial targets. Since the delivery of financial targets is on the basis of the sterling - euro FOREX that applies when the Commission reimburses claims, and this is currently £1=€.90, this rate is being used to monitor delivery and for reporting purposes to the GPB.

6. DWP and DCLG are managing and reporting this position in ways that reflect the characteristics of ESF and ERDF respectively.

7. DWP is reporting progress of its sterling commitments towards programme targets by converting them into Euros using the current exchange rate at which the Commission is reimbursing claims in order to show as realistically as possible the rate of achievement and any slippage.

8. DCLG is reporting the progress of its sterling commitments towards programme targets by using the current exchange rate in operation for LEP area allocations and then applying a 30% discount to them. This 30% discount reflects both historical trend data on project spend slippage and exchange rate fluctuations. By reporting using the exchange rate used for LEP area allocations, DCLG's Management Information (MI) maintains the link between spend performance and current LEP area sterling allocations, while also factoring in FOREX fluctuations. DCLG is keeping this discount under review to ensure it is consistent with new trend data on slippage and further changes in the FOREX rate. The exception to this approach is the reporting of the certifying authority payment applications which are based on the actual exchange rate at the time of submission.

Programme implementation across LEP areas and Priority Axes

9. The rate of commitment and delivery in individual LEP areas and Priority Axes (PAs) is not uniform in England. Commitment levels are nearing full LEP area allocations in some PAs, while commitment levels are behind profile in others. In some cases the sums uncommitted in particular PAs in individual LEP areas are too low to be useable for the purposes of financing projects of sufficient scale.

10. While these variations are being actively managed by MAs in partnership with stakeholders, through project pipeline development, recycling of unspent funds from contracted projects and other approaches, effective implementation and delivery of targets at Operational Programme level is likely to involve further central coordination by MAs.

Next steps

11. FOREX fluctuations and variable implementation across LEP areas and PAs will continue to be managed and reported by MAs to reflect programme needs and financial liabilities. DCLG and DWP will bring a discussion paper to the March 2018 meeting of the GPB. The paper will consider options for managing FOREX and implementation and allocations across LEP areas and PAs, and additional flexibilities that might be introduced that could enable the programmes to respond to fresh strategic opportunities in England and operational delivery challenges in different LEP areas to ensure that the available allocation is spent as efficiently and effectively as possible.

David Morrall, DCLG, Head of ERDF and EU Urban Policy
14 December 2017