



**European Union**  
European Structural  
and Investment Funds

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

**Growth Programme for England**

## **ESI Funds Growth Programme Board**

### **Management of the impact of the Foreign Exchange (FOREX) Rate for ERDF and ESF in the England ESI Funds Growth Programme**

#### **Purpose:**

To update the Growth Programme Board (GPB) members on the management of the FOREX rate in England and seek views on arrangements for ERDF and ESF Reserve Funds.

#### **Recommendations:**

The GPB is asked to:

- 1) Note arrangements for the management of the FOREX rate for ERDF and ESF in England

Provide views on the Reserve Fund for:

- 2) Governance arrangements;
- 3) Activities to be supported; and
- 4) Timing for its use.

#### **Introduction**

1. The March European Council endorsement of the latest draft of the Withdrawal Agreement means, subject to final agreement, we will continue to participate in EU programmes until their end (2023) and seek to spend their full value, consistent with sound financial management.
2. The ESI Funds programme budgets are set in euros and the sterling value to achieve budgetary spend targets is therefore linked to the FOREX rate.
3. As the Managing Authorities (MAs) for ERDF and ESF in England, MHCLG and DWP are responsible for managing the FOREX rate in line with the following objectives:
  - Realise the full value of the programme to maximise local growth, employment, education and social inclusion opportunities and ensure that 2023 performance framework expenditure targets are met; and
  - In realising the full value of the programme that any over or under spend arising from FOREX fluctuations is minimised, to reflect the need to maximise available funding and the financial risk that is carried by the respective MA's Department.

4. The current 0.78 FOREX rate used to calculate LEP area notional allocations has been in place for over two years. This rate does not reflect the current euro/sterling FOREX rate. The MAs are therefore reviewing the FOREX rate that should be used in line with a current rate in order to ensure that programme allocations are fully used. Based on the current FOREX rate, the sterling value of available funding could be increased. Given that the FOREX rate will continue to fluctuate during the programme period, any uprating or downrating of the sterling value of available funding would continue to be reviewed by the MAs and adjusted as necessary.
5. In considering an uprate to the sterling value of ERDF and ESF, MHCLG and DWP would need to ensure that programme allocations and associated objectives and targets are realised and financial risks effectively managed. To support this, the MAs are therefore reviewing the rate to use in the immediate term to uprate LEP areas notional allocations to allow sufficient opportunity for areas to advise on how to commit available funding.
6. While this measure will support the use of available funding and delivery of programme objectives and targets, it will need to be complemented by arrangements that ensure that ERDF and ESF allocations are fully used at programme and priority axes level across all Categories of Region. MHCLG and DWP will therefore be establishing over the longer-term Reserve Funds for ERDF and ESF to enable both departments to manage the full utilisation of available funding and the financial risks involved. These will come into play after places have had sufficient time to invest notional LEP area allocations, in line with arrangements put in place by MHCLG and DWP. The Reserve Funds for ERDF and ESF would:
  - Provide a mechanism for redistributing any shortfalls in LEP area commitments ensuring the maximum value of the programme can be realised.
  - Enable the MAs to make financial commitments in line with the accounting and financial controls of each Department and manage down the financial risk caused by a fluctuating exchange rate.
7. The Reserve Funds for ERDF and ESF would still be subject to the objectives, targets and spending plans of respective Operational Programmes, including funding envelopes at Category of Region level and for ESF IP1.3 – Youth Employment Initiative.

## **Management of the proposed Reserve Fund**

### **Governance**

8. Potentially, Reserve Fund activities will deliver against all ERDF and ESF objectives and targets. The governance for the use of any reserved funding will reflect this, and the respective decision-making roles and responsibilities of MHCLG and DWP as MA departments and the advisory role of stakeholders in supporting the ERDF and ESF programmes. Existing governance, such as the Performance and Dispute Resolution national sub-committee could be used, or else a new national GPB sub-committee or other arrangement.

***The MAs would welcome GPB views about the governance arrangements for the Reserve Fund above.***

### **Activities to be supported**

9. Reserved funds that are made available could be used to support a range of ERDF and ESF programme objectives in line with the activities to be supported set out below. The use of reserve funding for such objectives would be in line with the policy objective that underpins single England ERDF and ESF programmes, and scope to use funding flexibly and responsively across the country, to meet programme objectives and local needs.

#### Additional LEP area investment

- In some cases, notional allocations have been fully committed up to or near agreed thresholds in some Priority Axes in particular LEP areas, for ERDF and ESF. Reserve funding could be made available in some of these circumstances to enable key projects to proceed that deliver ERDF/ESF Operational Programme objectives and targets and local priorities.
- As well as delivering important growth activities, this approach could enable sums of money that are remaining in some Priority Axes and LEP areas that are too small to be useable (and which risk delivery of wider programme targets) to be 'unlocked' with additional reserve funding, enabling investment at a viable scale.

#### Programme-level opportunities/initiatives/challenges

- There are potential investment areas that could be addressed at programme level to meet wider ERDF and ESF programme opportunities and challenges. These could be in relation to skills that are needed in certain sectors or cohorts of people, support for Industrial Strategy Grand Challenges or other economic growth and inclusion objectives that demand a coordinated response over the next 5-6 years, across all or parts of England.
- Reserve funding could also be used to support ERDF and ESF programme objectives and help deliver any financial and output shortfalls at category of region/Priority Axes levels.

#### Local economic needs and economic shocks

- ERDF and ESF have both been used to respond to a range of economic shocks during previous programmes. This may be more difficult to organise in the 2014-2020 ERDF and ESF programmes if notional allocations are committed to projects already under development or contracted, or if the impacts of large company closures or wider economic shocks are spread over dispersed geographies.

Reserve funding could be employed in such circumstances and be used to provide a package of support that could involve re-skilling and entrepreneurship or business coaching, and other activities financed by ESF and ERDF.

#### Innovative delivery/pilots and future growth opportunities

- There may also be scope to use any reserve funding to help promote a range of service delivery innovations or initiatives that respond to significant growth opportunities across England. These could include calls that incentivise projects at a variety of geographic scales and/or encourage a range of public/private or business/research collaborations, including in response to particular Industrial Strategy Grand Challenges or sectors. This approach could generate a range of significant innovations and new approaches that could be tested and developed, enabling better delivery and impact and informing future growth approaches.

***The MAs welcome GPB member views on the potential uses for the Reserve Fund, which will align with and reflect both programmes' OPs.***

#### **Timing**

10. In managing a combination of short-term uprating of LEP area allocations and longer-term use of ERDF and ESF Reserve Funds, MHCLG and DWP will need to manage and balance programme objectives and financial risks.
11. LEP areas will need to have sufficient time to commit increases to notional allocations following the uprating process. Equally, the MAs need to actively monitor the extent and timing of additional funds being committed and ensure best and timely use of all available funds. There therefore needs to be a point in the programme where LEP area underspends can be reinvested through the Reserve Fund.

***The MAs would welcome GPB views on the proposed timing for drawing LEP area underspends into the Reserve Fund.***

#### **Next steps**

12. Once MHCLG and DWP have agreed the Forex rate to apply for initial uprating, MAs will confirm to ESI Funds sub-committees the revised sterling valuations of respective LEP area ERDF and ESF notional allocations.

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19 June 2018**