



European Union

European Structural
and Investment Funds

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

Growth Programme for England

ESI Funds Growth Programme Board

ERDF Reserve Fund in the England ESI Funds Growth Programme

Purpose:

To update the Growth Programme Board (GPB) on the development of the ERDF Reserve Fund

Recommendations:

The GPB to note progress to date and provide any observations.

Introduction

1. As set out and discussed at previous meetings of the GPB and Performance and Dispute Resolution (PDR) national sub-committee, ERDF and ESF Reserve Funds are being established in England to ensure full and effective use of available funding in the 2014-2020 programme. The core objectives of the Reserve Funds are to:
 - Invest the full value of the programme to maximise local growth, employment, education and social inclusion opportunities and ensure that 2023 performance framework expenditure and N+3 targets are met; and
 - Manage available funding in line with FOREX rate fluctuations, to ensure that the full value of the programmes are spent whilst mitigating the risk of over or under spend and manage the financial risk that is carried by MHCLG and DWP as the departments responsible for ERDF and ESF in England.
2. To manage these objectives MHCLG and DWP have systems in place to monitor exchange rate fluctuations and their impact on the value of the programmes. Based on these systems DWP and MHCLG updated the value of LEP area notional allocations last year. In the medium term this approach will be complemented by ERDF and ESF Reserve Funds, which will be introduced to support the full use of available funding and manage the impacts of a fluctuating FOREX rate.
3. Both programmes continue to plan on the expectation of the Reserve Funds approach being in place from Autumn 2019 onwards. In doing so the Managing Authorities (MAs) will apply flexibility to reflect respective programme delivery arrangements.

4. The Reserve Funds will still be subject to the objectives, targets and spending plans of respective Operational Programmes, including funding envelopes at Category of Region by Priority Axis.
5. Whilst the ERDF and ESF MAs aim to align Reserve Fund arrangements as far as possible, there will be some differences to the ways in which they operate to reflect the specific delivery models and objectives of both programmes. They will however operate on the basis of the following common principles:
 - Be introduced at the latest point that is necessary to commit all available funding;
 - Ensure Reserve Funds enable delivery of Operational Programme and local priorities;
 - Be managed in an open and transparent way;
 - Minimize the amount of changes to business process; and
 - Look to use existing local and national governance mechanisms where possible

ERDF Reserve Fund Detail

Calls

6. The timetable for Spring Calls has now been published. This sees calls for up to £500m being published on 28th June with a closing date of 30th September to support growth projects across the country.
7. The Reserve Fund approach will be in place from Autumn this year. We will assess the response to the June calls and then plan calls based on the Reserve Fund in early 2020.
8. To plan the quantum of the Reserve Fund effectively we do not plan to have a reserve list for the June call. In addition, the calls are likely to be focused on specific priorities and approaches that are different to those within the June calls. Relevant projects will be able to review their June applications in the light of the Reserve Fund quantum and call priorities and resubmit revised applications as appropriate.
9. When setting the value of the Reserve Fund, MHCLG will also consider the rate of pipeline attrition (the value of projects that drop out during the full application process) and the prevailing FOREX rate.
10. In order to provide maximum strategic scope, the calls will be England-wide albeit with separate Category of Region funding envelopes that will be broken down at Priority Axis level within the calls. It should be noted that discussions regarding

inclusion of the Less Developed Region in the national calls is still subject to further discussion.

11. Reserve Fund calls will have two core objectives:

- **ensure the full value of the programme is realised**; and
- **will prioritise activities that support fresh approaches that complement existing investments, such as:**
 - Applications that are EITHER Pan-LEP area, on the basis of existing pan-regional structures, such as the Northern Powerhouse and Midlands Engine, or other pan-LEP area propositions OR community-level initiatives against criteria that will be developed;
 - Clear delivery of the Industrial Strategy and (where relevant) Grand Challenges AND multi-Foundation based;
 - Innovation, either in substance of activity or mode of service delivery; and
 - Links to domestic growth initiatives

The Reserve Fund will therefore ensure that spending decisions continue to be driven by Operational Programme objectives and targets whilst also ensuring that the remaining funding is deployed flexibly across a range of England-wide objectives set out above, in tune with local growth plans.

12. Applications which deliver these wider growth objectives and their capacity to deliver local growth priorities will be prioritised through the Reserve Fund.

13. In the event that some funds remain uncommitted after the Reserve Fund call has been completed, a second call will be launched later in 2020.

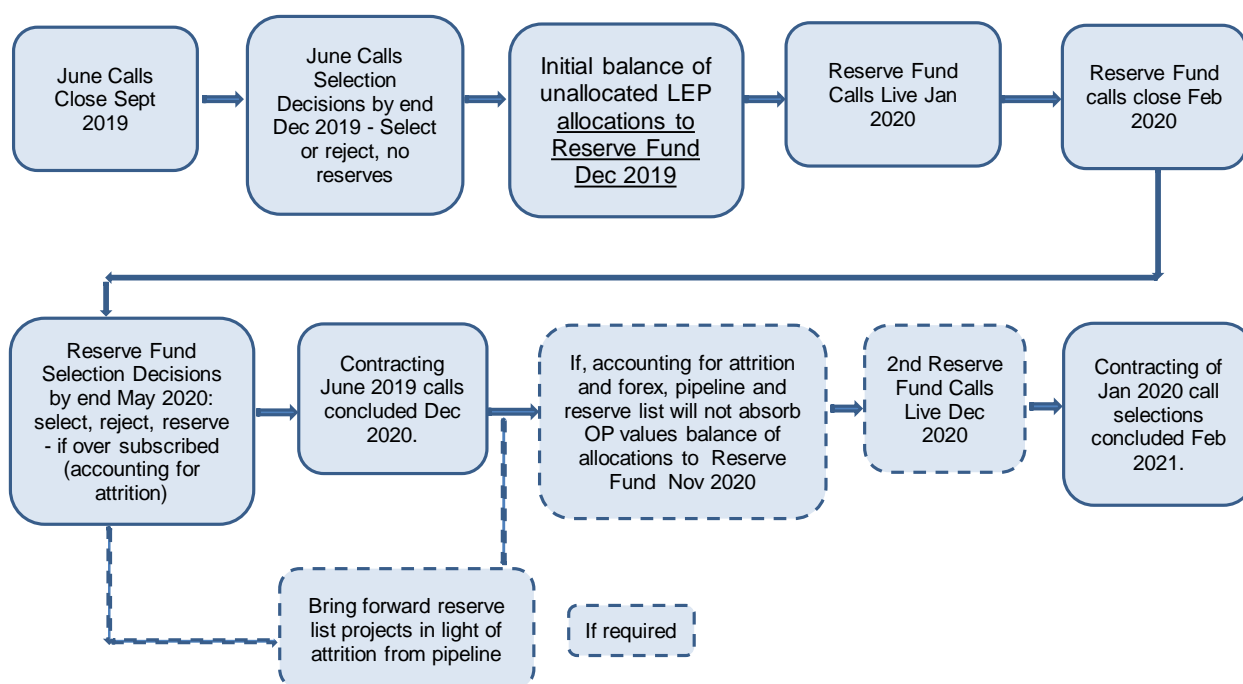
14. MHCLG will additionally undertake an operational programme (OP) modification in 2020 to ensure OP funding envelopes align with demand arising from the Reserve Fund call.

15. The current planning assumption is that the Reserve Fund call will apply to all PAs except PA8 (CLLD). In the event that funding envelopes in other financially smaller PAs are below viable thresholds, these may also not feature in the Reserve Fund call. The PDR and GPB will be consulted on the decision once the position is clearer later in 2019.

16. MHCLG will review progress against SUD following the initial assessment of the June Call outline applications. If it is concluded that the further SUD calls are required for the UK to meet the SUD target, then these will need to be run separately to the Reserve Fund call.

17. Other non-SUD IBs will be consulted on the content of the calls.

18. The diagram below sets out the detail of the call timelines and process:



19. Calls for the Reserve Fund will be developed by MHCLG. The advice of the PDR and GPB, and in line with existing arrangements IBs, will be obtained to inform the focus of these calls. The calls will be shaped by the size of the Reserve Fund: if the funding available is very small this may mean a highly targeted approach on particular schemes that have sufficient critical mass and impact. Conversely, if the Reserve Fund is larger the approach may be different, focussing instead on a number of agreed core priorities.

20. A further factor will be the prevailing socio-economic conditions when the Reserve Fund call is launched: as discussed in previous meetings of the PDR and GPB, particular economic shocks, at the level of place, sector or firms with wider economic impact, may inform a Reserve Fund call.

21. In all cases, the views and advice of the PDR and GPB will be sought to inform the basis for determining the shape and focus of these calls.

Assessment Process including criteria

22. The assessment process will be based on existing processes as far as is possible, including using utilising existing business process materials.

23. Calls will state the role of local partners, who (as now) will be asked to provide advice on funding applications and will also confirm the need to consider local priorities, alongside those set out above and any particular focus agreed for individual Priority Axes (see below for explanation of criteria).
24. This means that where the proposal for a project falls within a specific LEP area then the local ESI Funds sub-committee and/ or IB will be consulted using existing procedures.
25. There are three main business process challenges that result from the proposed Reserve Fund approach:
- The processing of pan-LEP applications;
 - Specific criteria for focussing Reserve Fund calls; and
 - The process for prioritising projects where project demand exceeds the funding available.

Pan LEP-area applications

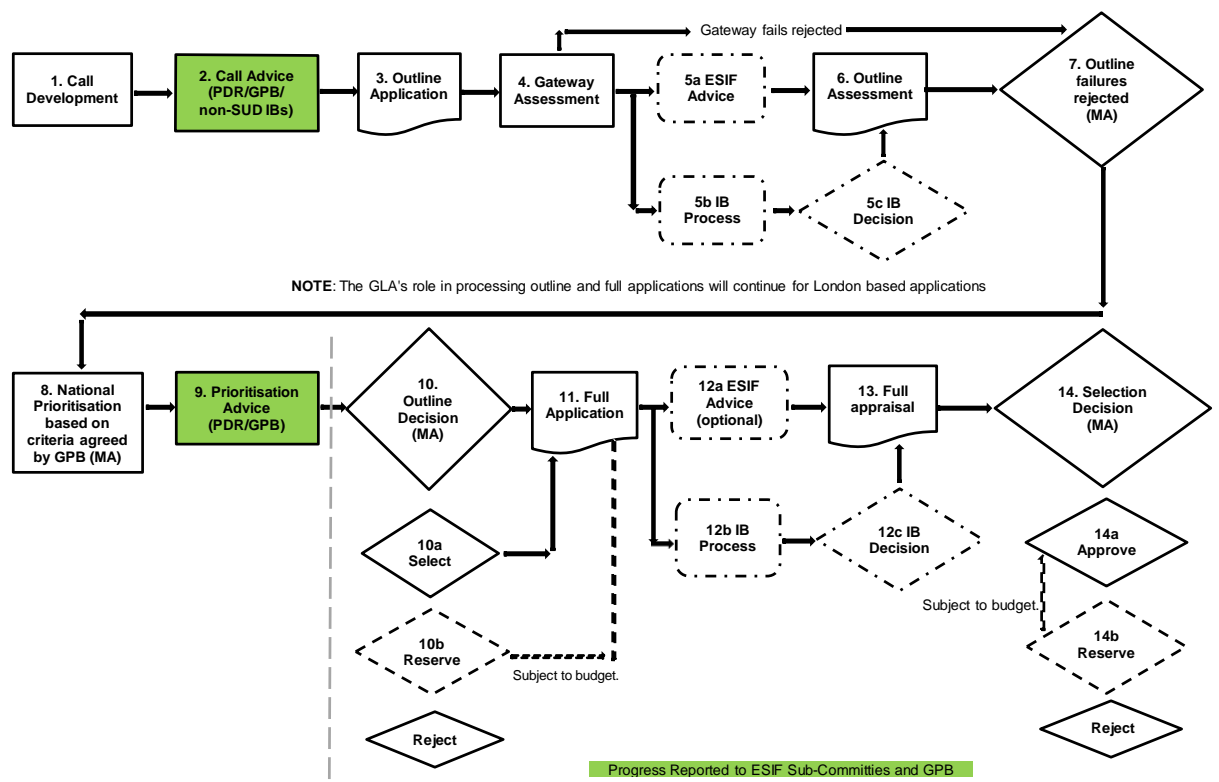
26. Where there are pan-LEP projects the relevant local ESI Fund committees and/ or IB(s) covered by the project will be consulted.
27. Where a specific objection is put forward by a LEP area then MHCLG will engage with local partners and where appropriate the potential provider to agree a way forward. If agreement cannot be reached then MHCLG may conclude that the project should proceed, either across the full geography proposed or else excluding an area that does not wish to engage, providing this does not undermine the strategic effectiveness, viability and value for money of the package proposed. In doing so MHCLG will set out to the PDR, GPB, the relevant local ESIF committees and where applicable IBs the rationale for its decision.

Criteria for selection

28. The proposed Reserve Fund criteria, both for the entire Reserve Fund and for prioritising applications where demand exceeds supply, are set out below.
29. As described in paragraph 20, the scale of the Reserve Fund will be important in finalising the focus of investment and linked criteria. The final criteria cannot therefore be agreed until later in 2019, by when this will be clear. The proposed criteria and process for prioritising projects are therefore draft and will be finalised at the Dec 2019 meeting of the GPB.

All applications:

- Each application will be assessed using the **existing project selection criteria** including strong value for money and alignment to domestic priorities; and
 - In assessing alignment with domestic priorities we will look at how project applications have responded to **call-specific priorities**, for instance on international trade, particular growth sectors, or places/sectors/firms that are vulnerable to economic shock
 - In addition, within the context of local growth plans including Local Industrial Strategies **all calls will prioritise activities that support fresh approaches that complement existing investments such as**
 - Applications that are EITHER **Pan-LEP area**, on the basis of existing pan-regional structures, such as the Northern Powerhouse and Midlands Engine, or other pan-LEP area propositions OR **community-level initiatives** against criteria that will be developed;
 - Clear delivery of the **Industrial Strategy** and (where relevant) **Grand Challenges** AND **multi-Foundation** based;
 - **Innovation**, either in substance of activity or mode of service delivery; and
 - **Links to domestic growth initiatives**
30. Where project demand exceeds the funding available, applications that most fully fulfil the additional weighting criteria in an appropriate strategic model will be prioritised.
31. The specific criteria may vary between individual Priority Axes but will be set out in detail in the respective call which the PDR/ GPB will have advised on.
32. MHCLG will undertake a national moderation exercise to ensure consistency of assessment and then take decisions on the prioritisation of the consistently assessed applications.
33. The conclusions of these discussions will be discussed with local ESI Funds sub-committees and the PDR/GPB prior to finalising the decisions.
34. To inform the final approach MHCLG is also reviewing both:
- The lessons learnt from previous England-wide call activities under PA9 and PA5; and
 - Approaches by other policy areas on multi-criteria decision making.
35. Good quality but unaffordable projects due to limited funding in the relevant PA by CoR will be placed on a reserve list and brought forward as funding allows – i.e. following attrition from Reserve Fund pipeline.
36. The diagram below sets out the detail of assessment process:



Governance

37. The governance arrangements for managing the Reserve Fund will continue as currently set out with the following exceptions, the PDR/GPB will:

- be consulted on the process for implementing the Reserve Fund;
- be consulted on the content of the Reserve Fund calls; and
- provide advice on the conclusions of national Priority Axis moderations specifically where these relate to the prioritisation of projects.

Other Issues

38. Issues still under consideration, some of which are already captured above, are:

- The degree to which the Less Developed Region is involved in national calls;
- Whether Technical Assistance is made available under the Reserve Fund;
- Match funding opportunities; and
- The process for recycling of funding arising from LEP area pipelines and project attrition.

39. Given that the Reserve Fund will be looking to prioritise certain activity, for example attracting pan-LEP projects, then there is a need to make the market aware sooner

rather than later. It is unlikely that such projects can be developed solely within the call window. As such MHCLG will be developing a communications plan to help trail the Reserve Fund priorities.

Next Steps

40. MHCLG will provide the PDR/ GPB with the following further information at meetings scheduled in August/ September:

- The communication plan;
- The finalised business process maps;
- Further detail on the prioritisation process; and
- The first drafts of the call templates.

41. At the November/ December meetings MHCLG will provide:

- The call values;
- The call templates for finalisation;
- The prioritisation process for agreement; and
- An indication of the need for future SUD calls.

David Morrall
ERDF Managing Authority
10/06/2019