Department for Business Innovation & Skills

Delivery of European Structural Investment Funds[1] in 2014-2020 in England. A summary note of feedback from a series of consultative events held across England in November/December 2012.

This note captures the views of interested stakeholders invited to a series of regional events across England at the end of 2012 concerning the Government's preferred approach to delivering the Structural Investment Funds (SI) in 2014-2020 for England. This approach was set out at 12 consultative events between 21 November and 17 December of 2012.

The SI Funds are European Regional Development Fund (ERDF), European Social Fund (ESF), European Agricultural Fund for Rural Development (EAFRD) and European Maritime and Fisheries Fund (EMFF). The principles of this approach are:

- ERDF, ESF and a proportion of EAFRD, will be brought together into an 'EU Growth Programme' with a single governance structure;

- EMFF due to its size and focus will not be included in the Programme but will be aligned where possible with the other Funds.

- Top priorities are innovation/R&D, SME, skills, low carbon, employment and social inclusion described by the EU Commission as thematic objectives.

- LEPs, working with local partners, will set the priorities for the Funds in their area through an EU Investment Strategy

Events were held at: Birmingham, Leicester, Maidstone, Ipswich, Durham, London, Scarborough, Wakefield, Pool, Taunton, Preston and Reading.

Around 1000 delegates took part which included representatives from local government, universities, Local Enterprise Partnerships (LEPs), civil society and Local Action Groups. Interests ranged from urban to rural based programmes to those with specific interest in environmental, social, economic and innovation issues.

We would like to thank those of you who were able to attend for taking part.

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[1] Structural Investment Funds were previously known as the Common Strategic Framework funds.

The key messages received from stakeholders were:

1. Support for flexible working across functional economic areas and for new opportunities to collaborate.

2. Need to set out how Integrated Territorial Investments (ITIs) and City Deals will be dealt with.

3. Advice from Managing Authorities through the proposed Local Growth Teams must be coordinated, consistent and of a high standard.

4. Communications and stakeholder engagement should be clear and co-ordinated.

5. The requirements on LEPs for partnership, consultation and collaboration must be clearly set out as soon as possible.

6. Clear mechanisms should be put in place to ensure that partners – especially SMEs – are able to take part in developing the SI investment strategies.

7. Lessons learnt and best practice from current programmes and other areas need to be incorporated into programme design.

8. Pooling and capturing existing local and national expertise, knowledge and ideas will be crucial in the delivery of appropriate local strategies.

9. Government to take action to ensure best use of national and local funding sources.

10. Government needs to take bold and innovative steps to harmonise and simplify the Funds in order to align them administratively.

11. Allocations methodology should be made transparent.

12. An effective transition from the current to future programmes is necessary.

13. Rural and fisheries interests should be safeguarded.

At some events suggestions for local priorities were set out. This was discussed in most detail at the Ipswich event of 30 November 2012. A summary of the interest in thematic objectives is set out on page 13.

Summary of comments broken down by issue:

Support for flexible working across functional economic areas and for new opportunities to collaborate.

There was interest in further information on how LEPs will be encouraged to work together as previous attempts to do this had not proved successful. It was important that this does not lead to Government dictating geographies but instead other ways to encourage collaboration should be explored, such as via the work of national bodies such as Green Bank and TSB.

Need to set out how Integrated Territorial Investments (ITIs) and City Deals will be dealt with.

It was felt that the City Deals model could be a good example of how to pool funding pots. A devolved model such as ITIs could help to address the issues around project approval at local level. However for both, more information was required on how City Deals will be aligned with the LEP programme boundaries and the role ITIs will have.

Advice from Government through the proposed Local Growth Teams should be coordinated, consistent and of a high standard.

There was overall support for Managing Authorities to work together to assist partners. Coordinating engagement via these teams will ease the burden on local partners and ensure consistency in advice and approach taken. However, the focus should be on the teams providing pro-active, upfront support and facilitating, rather than prescribing activity.

Communications and stakeholder engagement should be clear and consistent.

There were comments that the communication on the current programmes should be improved, for instance around the use of jargon. This has reinforced the perception, in particular amongst business, that EU funding is too bureaucratic to get involved with. To address this Government engagement will need to be co-ordinated and consistent and:

- Be clear in how the decision making process is developing and continue regular dialogue with localities. Government will need to be transparent on the type of engagement that has happened so far and any outcome. There was some concern from the environmental sector that there was no engagement with them.

- The design and consultation phase should involve working groups.

- Use sector groups/networks to help engage with business and inform them of their needs.

- Provide clarity on what the national programmes and polices are to ensure fit and not friction with local plans

- Make organisations aware of the funding streams available to LEPs and when calls for proposals are made.

- Make the most of open data principles to ensure that it is clear where funding is actually going and its impact.

The requirements on Local Enterprise Partnerships (LEPs) for partnership, consultation, governance and collaboration must be clearly set out as soon as possible.

LEPs were seen as playing an important facilitative role in talking to government on behalf of business, but there was some concern that the proposal will move LEPs away from their original purpose:

- LEPs currently focus on growth. If Government is asking them to cover wider issues, such as social inclusion, this would risk diluting their role.

- If LEPs are deciding on the use of vast sources of funding then can they be independent?

- With the additional tasks and funding proposed for LEPs, will we end up with 39 mini Regional Development Agencies?

- Will LEPs lose their fleet footed nature?

Any new requirements should therefore be set out clearly and as soon as possible to help them plan and adjust.

Partnership

As LEPs will be invited to play a key role in delivering funds that have objectives wider than their current economic ones (such as environmental and social) they will need to work with relevant local and national partners. There was a particular concern that:

- The rural agenda is not yet understood by all LEPs; and

- The necessary partnerships were not established between LEPs and civil society.

Potential partners highlighted include: chambers, SMEs, Federation of Small Businesses, UK Trade & Investment (UKTI), local authorities (including district councils), Visit England, Forestry Commission, trade associations, BIS, TUC, civil society, enterprise agencies, universities, Nature Partnerships, Catapult Centres, government programmes such as Growth Accelerator and Manufacturing Advisory Service and the Technology Strategy Board and Building Research Establishment (BRE).

Consultation

There are a number of bodies in place that can deliver the Funds but there needs to be a system that will allow all of them to work together in a smarter way. It should be clear on what the route to engagement is. LEPs should make it clear to local partners the rationale for the strategy, including why certain priorities have been established.

Collaboration

Cross-LEP projects were supported especially if based on a sector or common objective rather than geography. However Government needs to better understand how it can enable LEPs to work with each other to better exploit synergies. One way to help identify LEPs to work together would be to map the national clusters of expertise and existing provision of support. National government can also play a role by consulting more widely when it commissions programmes. There was a question about whether ITIs could play a role in encouraging LEPs to work together.

Collaboration with those close by and further afield was supported. Those in Preston and Durham also raised need to collaborate with Scotland

For those that do collaborate Government will need to consider how governance, spending and outcomes will be dealt with across the LEPs.

Governance

A number of questions were raised on the local and national governance arrangements. Effective communications between national and local decision making processes would be required. Questions raised include:

- Who will approve local EU growth strategies and who will approve individual projects?

- How will the LEPs work with the National Growth Board?

- What will be the role of and who will sit on the National Growth Boards and underlying groups. How will their membership be determined? What will the local representation look like? Will it involve a representative from each LEP? There was a request specifically from the event in Preston for a representative from the North West to be on the Board.

- Finally for both LEPs and National Growth Board - stakeholders were keen to understand on what and how they would be able to challenge in relation to LEP or national decisions?

There were many questions over the split of accountability between Managing Authorities and LEPs and a perception that if MAs hold the risk they were more likely to take a hands on approach. The balance between central and local approach was identified as a key challenge.

In relation to LEPs there were calls for transparency in their decision making process, proper accountability and a real role for LEPs they should not be simply rubber stamping what has been agreed at the National Board or sub groups. Transparency would help reduce any risk that local personalities will dominate and bias decisions.

Clear mechanisms should be put in place to ensure that partners – especially Small & Medium Enterprises (SMEs) – are able to take part in developing the SI investment strategies.

LEP's capacity varies, some are well resourced, others will no formal secretariat. There was therefore a general view that LEPs will require support from Whitehall and local government so that they have the capacity and skill set to deal with the new system. This will include being able to:

- Establish and maintain the relevant partnerships within the LEP (to cover new objectives, work with local groups and cover rural interests) and to establish collaborations with other LEPs. In addition, it was generally felt that overall, LEPs overall had been more successful in engaging with large companies than SMEs, with some support for more actions within LEPs to represent the SME interest

- Deal with the complexity of requirements associated with European funds

- Put in place the relevant strategy.

To ensure partners can take part it was proposed that government provides:

- Technical assistance. Proposal to use technical assistance tactically and strategically to ensure local partners can best be supported. This should be determined early in the process (it should not be an after thought) and used to build local capacity, expertise and engagement in the programme. There was a suggestion that this should be available to other local partners including voluntary sector and district councils, as well as LEPs. An early dialogue between government and partners in this regard would be helpful.

- Guidance. It should include clear definitions, including what is eligible (minimum project size?), strategic outcomes required (to help encourage partnership), a timetable and information on potential cross LEP issues such as business support, innovation services, low carbon, site and property development and infrastructure. This should be targeted towards the consumer (not HMG). To ensure it is relevant there should be a discussion with local partners.

- Workshops for new participants on how to interpret the rules and apply.

Project development

It was generally agreed that local partners need to think now about scoping projects so that these are ready to launch. There were differing views on how ready LEPs and local areas would be with project ideas, though some felt that LEPs will already have ideas on hold due to funding blockages. There was support in LEPs to develop plans but dialogue with other local partners will be important.

To ensure project readiness there was a call for:

- A pre approval process within the application process to provide confidence that a project is eligible and to avoid applicants wasting their time

- Agreed mechanisms for sharing programme outputs and wider outcomes from cross funded projects. Unified outputs/outcomes across the funds and a common approach to measuring them needs to be agreed prior to funds going live.

- A long term approach to performance and evaluation to enable outcomes and not outputs to be the basis of the evaluation. Reporting should be to both LEPs (so they can understand the impact) and Managing Authorities (to ensure compliance).

A flexible approach to allow LEP strategies to adapt to deal with changing innovation priorities and other changing local needs/developments will be required. If strategies were for 7 years then the flexibility to deal with changing priorities could be lost.

SMEs

Large companies and public sector organisations are able to carry the risk of bidding and afford to wait the necessary length of time to complete the bidding process. As well as achieving simplification objectives and producing clear guidance, it was suggested specifically that:

- There should be flexibility in which businesses can be supported, which should cover micro, SMEs and larger companies. Recognise small farmers as SMEs.

- Up front funding should be considered, rather than the current pay first and claim back which is not attractive to SMEs. Reimbursement currently seen as taking a long time. Some other European programmes and delivery bodies (e.g. TSB) take this problem away from SMEs.

- The private sector should be encouraged to play a greater role in delivering services, for instance private training providers.

Lessons learned and best practice from current programme and other areas need to be incorporated into programme design.

Lessons should be learnt from the current programme, business support and other policy initiatives. Suggested best practise examples include:

- LEADER to be applied to the new Community Led Local Development Groups.

- DEFRA Land skills model.

- Community Development Finance Institutions (CDFI) model was suggested as a successful less burdensome approach to dealing with soft loans. They work through a third party to recycle the funds rather than having to pay ERDF back through to government.

- ESF's recent Skills Funding Agency tender exercise for skills support for work force provision had showed it was possible to have a national specification which recognised the different LEP needs.

- City Deals demonstrate how funding can be pooled.

Good local initiatives referenced were:

- Arts Council work with D2N2 (Derby, Derbyshire, Nottingham and Nottinghamshire) LEP.

- Cambridge university and industry links to strengthen the whole 'regional economy'.

- Technical assistance being used to fund an annual ERDF stakeholder event, delivered through the third sector (One East Midlands).

- Simplification - LEADER II Broads and Rivers Programme which through one form business can access funds from EU, EEDA, Norfolk CC and DC.

- Rapid response project in East of England has worked well in supporting employees at the early stage of redundancy.

- Support of innovative local assets such as solid state lighting in Cumbria.

- West Lindsey District Council scheme to provide loans and grants to start ups.

- Lincolnshire LEP working with financial sector to broker product offers.

- Financial Engineering Instruments (FEI) - Jeremie in the North East was seen as successful as was a FEI scheme run by the University of Anglia.

Pooling and capturing existing local and national expertise, knowledge and ideas will be crucial in the delivery of appropriate local strategies.

The proposal for an EU local *Strategic* Growth strategy was generally welcomed as the basis for the process. It was seen as important that the strategy adds value and does not duplicate. The current growth plan that each LEP has developed will be a good starting point, but these will need to be developed further to ensure they can maximise the draw on EU resources.

There was support for the strategies to cover economic, cultural and social benefits (including tourism) as they are interlinked.

It was suggested that funds should:

- Be focused where needed rather then where it is easiest to spend.

- Complement and add value to government programmes and not compete.

Pooling and capturing existing expertise, knowledge and ideas will be crucial in the delivery of appropriate local strategies. This would include local community development partners, such as Local Advisory Groups. There was concern from local groups that larger infrastructure issues would be prioritised instead. To enable strategies to be properly thought through, technical assistance should be available upfront.

Government to take action to ensure that best use is made of national and local funding sources.

Given the current economic climate there was concern on where the match funding would come from and how to access it. National sources were generally seen to have a role on the basis that they could both be tailored to deliver local priorities and help reduce fragmentation in business support.

Government should set out what national Funds and non-Common Strategic Framework Funds are available in order to allow gap analysis in the LEP Strategies.

Potential funding sources referenced were UKTI, adult education, retail banks, national business support schemes, third sector (including Lottery and big trusts), Skills Funding Agency, National Health Service, local authorities (including business rates), LEPs, Enterprise Zones and Growing Places Fund.

To help minimise any potential match funding problems it was suggested that Government should:

- Identify what national and local funds are available and terms for use e.g. can local authorities borrow against future business rate retention revenues?

- Set out clear eligibility criteria including whether LEPs core funding can be used as match

- Consider pre matching with funds such as Regional Growth Fund.

- Consider allowing volunteer time as match in order to meet Big Society objectives.

- Look at how to leverage in funding based on other related existing programmes e.g. the investment in retro-fitting by Housing Associations that could attract ERDF; then line up ESF investment around green skills and employment.

- Make it clear that private sector match is eligible for ERDF.

- Promote the opportunity for others to expand their budget through these EU Funds.

- Request to work with the EU to have more flexible rules around match including for technical assistance.

Based on experience with the current ESF programme, there were mixed views on the use of co-financing organisations. Some felt that large organisations do not necessarily deliver local objectives, yet others felt that use of them does allow for activity aligned to national priorities. If there was to be a mixed approach of co-financing and match, then there needs to be adequate inclusion of local decision making. The recent Skills Funding Agency ESF tendering exercise was proposed as an example of this.

There was a question whether use of these Funds on capital infrastructure reduce other funds available in the area e.g. TEN-T (Trans-European Transport Network)?

Government needs to take bold and innovative steps to harmonise and simplify the Funds.

The alignment of the Funds was welcomed as a way to get rid of the silos that exist between and within domestic and European funding programmes - and as a result lead to greater effectiveness and better results. However to achieve genuine alignment the funds will need to be harmonised and simplified.

There was some scepticism that the administration process will be simplified as much as it could. Some commented that wider policy issues will mean that simplification may not always be possible - e.g. adherence to state aid rules and that the more local the approach the more administration will be required. Assessment would be needed on whether tying Funds more closely together would mean if there were problems with one Fund it would also impact on other funds.

However, reducing red tape was seen as an important issue to resolve if business and others are to engage. There was therefore a challenge to Government to identify bold and innovative steps to make this happen. It was proposed that Government should:

- Put in place the minimum required for (full) compliance with the regulations. The current audit process was given as an example of an area that goes beyond what is required and as such results in an overly complex, costly and inconsistent approach.

- Simplify Whitehall structures to ensure that they are better aligned to work with LEPs and deal with as much of the bureaucracy as possible.

- Consider the role of co-financing organisations. There were mixed views on these organisations - some felt they could be a way to keep bureaucracy away from final beneficiaries, but others felt they could increase bureaucracy and stifle local 'home grown' entrepreneurial flair especially at the micro-enterprise level.

- Put in place a joined up delivery model with clear aligned guidance and procedures and a single point of contact. 'One application' process could work but it would need to be able to deal appropriately with the issue so that, for instance, a less prescriptive approach is possible for a barn re-development compared to a new airport runway.

- Use broad definitions, where possible, to allow for flexibility in approach.

Allocation methodology should be made transparent.

A multi year funding allocation was welcomed as it will provide long term funding certainty. There was an expectation that the allocation would be linked to the objectives of the funds in terms of supporting growth and/or reducing disparities but there was uncertainty on what the emphasis would be. Clarity on the methodology would help local areas understand the allocation basis and overcome the different assumptions on which areas of the country currently benefit – some thought the North, others the South or other localities. It was also proposed that the approach should take note of very local areas of deprivation which can be hidden in more affluent areas.

LEPs and local partners would wish to see a ball park figure of their allocated funding as soon as possible, to get a sense of scale, as otherwise it would be very difficult to plan.

Clarity on the timing and methodology of the allocation process would be welcomed, including:

- How overlapping LEP boundaries, transition and less developed regions would be dealt with.
- What proportion of EAFRD would be allocated to growth.
- Whether there would be any capital/ revenue split requirements.
- The circumstances when allocations would be re-allocated e.g. if a LEP under spends (this will help to 'de risk' plans).
- Any top slicing should be made clear at the outset.

There was a comment that we should avoid a LEP accessing more EU funding just because they are better resourced.

An effective transition from the current to future programmes is necessary.

Importance of a smooth transition was highlighted for all Funds as any gaps could lead to skills loss in delivery partners and a loss in project momentum. The issue was raised particularly by Local Advisory Groups. To help deal with this there was a request to bridge any funding gap for staff working on the current programme and to provide a clear next steps timetable setting out what would happen if there were delays in the programme.

Rural and fisheries interests should be safeguarded.

The new rural development programme was seen as an opportunity to address more generic rural challenges – declining services, housing affordability, transport, ICT. If a more holistic approach was taken then it could help them tackle broader national challenges linked to flood management, food security and environmental risk management.

The alignment of domestic and EU Funds was welcomed in order to get joint skills and economic development strategies and more joined up local delivery. However there is a need to ensure that rural and fisheries polices remain supported and are not lost. As an example, the importance of micro business in rural areas was highlighted. It was suggested that current ERDF arrangements tend to focus on SMEs.

Small rural pockets in "rich" LEP areas feel hidden and can get overlooked, particularly where there is no Leader programme in the area. NUTS3 would be a better level than NUTS2 to make decisions on. There was also a comment on whether there was a risk that areas which do not completely fall under rural or urban areas will lose out.

There was a comment that while Local Area Groups will want to retain their autonomy, they will need to operate as part of a wider family such as with LEPs. Further information on how LEADER will be aligned with the Growth programme and whether ESF and ERDF should be available to these groups was requested.

Thematic objectives.

Innovation

Commercialisation of R&D can help provide high value skills jobs in the local economy. While there was widespread support for a focus of funds on this area, clarity on the focus of national innovation objectives were raised. For instance should these EU Funds focus on proven centres of excellence or help others to catch up?

It was suggested that investment should focus on embedding the benefits of an innovation in the area for instance by building up the intermediate skills base.

In addition, as the EU has proposed that the use of smart specialisation strategy informs the Growth Plans it was considered useful to explore what this means for the development of local plans.

The following were raised as priorities:

- Focus on commercialisation, recognise that innovation is wider than high technology and research in universities
- Innovation in farming, food and life science as key sectors
- Quality workspace that supports interaction with others

SME Competiveness

Programmes in the new funding programme should be demand led, relevant and tailored to SME needs. Programmes should be flexible to allow for changing circumstances such as focusing on supporting growth to helping business to survive. Need to be clear that social enterprises are included in the SME definition. Engagement with employers is critical to ensure skills requirements are met and LEPs can play a key role here.

There were comments that national policies tend to focus business support on high growth companies which could mean that certain areas miss out as businesses located there fall outside of the definition. Should those businesses that fall outside these eligibility criteria form the pipeline for possible business support programmes?

It was considered that micro enterprises collectively can make a big contribution to the increase in GVA, however they are less likely to create jobs on a significant scale. Programme outputs should recognise this.

There was support for moving away from basic skills to higher level.

Financial engineering instruments (FEI) should be linked to investor readiness. Economy of scale was seen as important and so collaboration between LEPs will be important. However, locally based fund managers and ring fenced allocations were important to ensure support is focused in the area. The Government should recognise that the current structure of FEIs required extensive resources and time to get right and partners need to plan now to make most of current expertise to ensure seamless transition to the new programme. Any profits from FEIs should go back into the local scheme for 10 years.

The following priorities were suggested:

- Actions which increase markets and generate sales for companies including support around inward investment;

- Provide long term business advice and finance to new business and existing business, including high growth business.

- Some business can be relatively isolated and would benefit from support mechanisms to reach out to them.

- Investor readiness programmes, covering HR, skills planning as well as business and financial themes, should be provided so SMEs are ready to access the finance.

- The alignment of business support and skills were seen as important to benefit not just employee but also the employers - to help them make that move to grow a business for example through investment in leadership and management.

- Support for a more coherent package of support for companies to start and grow their business. This should cover export, entrepreneurship, supply chain development, public sector development. There was felt to be a void in this kind of approach following the closure of Business Link.

- Embed entrepreneurship in the school curriculum offer.

- Strengthen the local supply chain by providing demonstration sites, where business can test and demonstrate innovative products,, increase collaboration within and between sectors and improve links with local health procurement procedures.

Low carbon

Low carbon is likely to mean different things to different geographies and sectors e.g. home insulation, wind turbine manufacture and installation, or energy efficiency. Therefore, the Government needs to be clear on what can be supported. For instance can it include education in schools?

Public sector procurement should play a role in supporting this objective.

The following priorities were suggested:

- Combating fuel poverty (in relation to old housing stock and listed buildings),

- Supporting the renewables sector, offshore wind farms and possibly also consider nuclear.

- Grants for to help farmers purchase equipment to improve crop fertilisation and reduce waste.

- Smart traffic lights to cut traffic pollution.

Skills

Business and communities need both basic softer skills (to help NEETs and long term unemployed transition into work) and high level skills support (Level 4 and above). However, currently there was mismatch between skills and jobs, with both skills shortages, across all sectors and levels, and people over qualified for the jobs they are in.

It was suggested that there should be a better link with government policies on skills and local business and local economy needs. Employer led programmes could help to address key skills deficits in the workforce.

The new funding programme needs to link existing provision much better. For example, there was a view that provision to help NEET 14-19 year olds gain qualifications and get a job is generally not co-ordinated and no one organisation has a sense of its overall impact. Some local authority representatives believe they are well placed to co-ordinate this provision locally but this can be difficult where provision has been commissioned at a national level.

The following priorities were suggested:

- Encourage university graduates to remain in a local area by: building on local technology centres and helping universities to work more closely with SMEs so that degrees are appropriate and graduate placements are offered with SMEs.

- To support employers by providing leadership and management skills. with a focus on developing and retaining graduates.

- Sectoral support - integrate skills support with other support e.g. green energy sector and supply chain work. Workforce development, especially in engineering which has an aging workforce is critical (transferable skills from the traditional oil and gas industries can deal with declining engineering skills).

- Develop entrepreneurial skills rather than focus on just creating jobs.

- Provide young people and adults with advice and guidance.

- Raise aspirations for the excluded and the long term unemployed and deal with inter generational challenges. There should be support for migrant workers. One suggestion was for employers to receive a training budget if they take on and train excluded or long term unemployed. In addition community learning activity was seen as a way to engage with hard to reach adults through bite size learning.

Other priorities that were highlighted

Broadband (raised at many events), tourism, transport infrastructure (eg Atlantic Gateway), Climate change and adaption (including flooding) and regeneration (to ensure there are attractive places to live and work, including re-invigorating town centres).

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