

FOI Release

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Title: Methodology for calculating ERDF/ESF allocations to LEPs for 2014-2020

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Information request

Full details of the methodology employed by BIS to calculate the allocation of the European Regional Development Fund (ERDF) / European Social Fund (ESF) to the 39 Local Enterprise Partnerships (LEPs) for the 2014-2020 period.

Information released

2007-2013 funding period

1. Allocations for 2007-13 were made in respect to regional categories¹ defined in the 2007-2013 EU budget:
 - Convergence regions: (i.e. poorest regions, West Wales and Cornwall)
 - Phasing Out (of Convergence) regions: (i.e. graduating out of being poorest, Highlands & Islands)
 - Phasing in (to Competitiveness) regions: (i.e. in transition to enjoying GDP levels in line with the EU average)
 - Competitiveness regions: i.e. other areas which were relatively wealthy in relation to the regions in the other categories)
2. All regions of the UK which fell into the Convergence category (i.e. Cornwall and West Wales), Phasing Out (i.e. Highlands & Islands) and Phasing In categories (i.e. Merseyside and South Yorkshire) received an allocation according to the EU's formula for those regions for 2007-13.
3. Allocations to the other areas (i.e. those under the Competitiveness regional category) were based on a UK-determined basket of indicators - including population, R&D spend, business start up rate, academic qualification rates, GVA per capita and the level of worklessness.

4. A safety net was also applied to Competitiveness areas, based on 2000-06 allocations in order to curtail any sharp reductions. This was set at 20% for ESF and 6.7% for ERDF.

5. The combination of the Government's application of a basket of indicators and a safety net had the effect of directing relatively high levels of funding to northern areas outside Merseyside and South Yorkshire compared to some southern areas facing similar economic profiles. This was in recognition of the greater development challenges faced by the north. These disparities have not dramatically changed in the past seven years.

¹ Regional categories are set at NUTS 2 level (typically equivalent to large counties or groups of smaller counties)

2014-20 allocations methodology

6. The February 2013 European Council agreed the overall limit on EU spending for 2014-2020. This resulted in an 8% reduction in the level of funding for ERDF and ESF for 2014-20. UK receipts are set to fall by around 5%. All allocations are subject to agreement with the European Parliament on the EU regulations and 2014-2020 EU Budget.

7. The UK's spending commitments scheduled against the EU budget for 2013 set the baseline for the allocation of ESF/ERDF for 2014-20.

8. Allocations for 2014-20 were made in respect to regional categories² defined in the EU budget:

- Less Developed regions: (i.e. poorest regions with less than 75% of EU average GDP, West Wales & Cornwall)
- Transition regions: (i.e. areas experiencing 75%-90% of EU average GDP, which include 11 areas of the UK, 9 of which are in England)
- More Developed regions: (i.e. all other areas, which will have more than 90% of EU average GDP)

9. In 2014-20, the Government's aim was to protect EU funding to those regions with the lowest GDP (designated 'less developed'). EU regulations³ allow the Government to move just 3% of the budget between the above regional categories. The Government has therefore decided to transfer 3% of the budget assigned for More Developed regions and Transition regions at UK level to the Less Developed regions budget. This has still resulted in an anticipated 16% reduction in the level of receipts for the Less Developed areas compared to their 2013 allocations (in terms of commitments to the EU budget) for the 2014-2020 period.

10. Allocations for England, Scotland, Wales and Northern Ireland for 2014-2020 were then equalised, with each receiving around a 5% reduction in each Administration's overall ERDF/ESF allocation in relation to their 2007-13

allocation. This was announced by the Government on 26 March 2013. The UK Government decided to reallocate EU Structural Funds in this way to minimise the impact of sudden and significant cutbacks in receipts for Northern Ireland, Scotland and Wales.

11. The 2007-2013 allocations took account of the greater development needs in the North and the Midlands compared to most of the South. The disparities between the developmental needs of these regions have not lessened so the Government decided that the UK's spending commitments scheduled against the EU budget for 2013 set the baseline for the allocation of ESF/ERDF for 2014-20. With regard to the area designations prescribed at EU level, this meant that:

- All 'transition' regions received an equal c.20% uplift - based on those regions' 2013 spending commitments.
- All 'more developed' category received a c. 5% uplift - based on those regions' 2013 spending commitments.
- Cornwall as the 'least developed' region received a 16% reduction - based on those regions' 2013 spending commitments.

12. The Government has given a commitment that ERDF and ESF will be allocated to Local Enterprise Partnership (LEP) areas as an important new source of finance to stimulate local growth and jobs. This marks a significant shift from previous European programmes which were substantially centralised with limited local involvement in many key areas. In the current programme around half of the overall ERDF and ESF allocation was retained by Government to determine how it was spent, but for 2014-2020, Government will retain just 4.3% of these Funds.

13. This will fund a part contribution towards programme administration costs (under the allowance for Technical Assistance) and also a contribution towards a service to support prisoners from prison and into paid employment upon their release (from the ESF). (In addition to the Government's withheld contribution for programme administration, up to half of the Technical Assistance budget - anticipated to be around €120m – will also be made available to LEPs and key delivery partners upon application for eligible activities related to the delivering the programme.)

14. Allocations were calculated on the basis of NUTS2⁴ geographies and then converted to LEP areas on the basis of population. Where LEP areas overlap, allocations have been divided equally between the relevant LEPs on the basis of population. If LEPs formally change their boundaries, the EU allocations will be adjusted accordingly.

² Regional categories are set at NUTS 2 level (typically equivalent to large counties or groups of smaller counties).

³ Negotiations on the EU regulations underpinning the ERDF and ESF are ongoing. The 3% is the current European Council agreed position on the 'Regulation of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund (ERDF), The European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF) covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1083/2006'
<http://register.consilium.europa.eu/pdf/en/12/st14/st14287-ad04re02.en12.pdf>

⁴ NUTS2 regions are typically large counties or groups of smaller counties

South Yorkshire and Merseyside

15. For 2007-2013, South Yorkshire and Merseyside were designated as Phasing in regions and subject to a downward taper of Structural Funds spending commitments across 2007-13 in order to give time to adjust to lower levels of receipts.

16. From 2014-2020 both South Yorkshire and Merseyside will be classified as Transition regions, reflecting their current economic position, along with 9 other UK regions. As such they will receive a proportionate share of the UK's budget for Transition regions but they will not enjoy special status over and above other UK Transition regions.

17. The spending commitments are not all spent in the year in which they are allocated. In terms of actual spending, the profile in 2007-13 is partly a function of the 'n+2' rule (n+3 will apply in 2014-20)⁵, and partly a function of the speed and profile of implementation by the responsible authorities. The same will also be true in 2014-2020⁶. However, we must compare like with like. The announcement on allocations concerns spending commitments and the comparator must therefore be spending commitments in 2007-13. So it is true to say that as a result of these regions being designated Transition region in 2014-2020 these areas will see a 20% increase in their annual allocations in 2014-20, compared to a 2013 baseline (or 15% once the 4.3% reserve of Funds by Government is taken into account).

⁵ N+2 rule is where programmes have two years in which to spend these commitments.

⁶ For 2014-2020 it is proposed that programmes will have three years to spend these commitments i.e. N+3.