



**European Union**

European Structural  
and Investment Funds

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

**Growth Programme for England**

## **Operational Programme Modification**

### **Purpose:**

To inform the Growth Programme Board (GPB) on ERDF Operational Programme modifications that are currently being drafted and discussed with the European Commission.

### **Recommendations:**

The GPB notes the modifications being proposed in advance of the Managing Authority seeking clearance for the proposals by written procedure.

### **Summary:**

The Managing Authority is required to update the Operational Programme (OP) to incorporate funding arising from the Commission's recalculation of structural funds allocations on the basis of the most recent statistical data. As part of its on-going review of the OP the MA identified additional modifications that it would be appropriate to make at this time. The majority of the proposed changes are intended to update the assumptions behind the Performance Framework:

- Amend Performance Framework unit cost calculations based on the application of new evidence or the correction of errors made in the original calculation;
- Amend allocations in priority axes where a better understanding of the regulatory environment during implementation has reduced demand;
- Amend the Less Developed Region ERDF/ ESF split to address a miscalculation of the split in the current Programmes; and
- Amend text relating to the eligibility of activity under priority axis 4.

The Managing Authority is also seeking changes to the narrative in the Operational Programme to ensure it reflects changes to business processes. Specifically in relation to:

- The role of Intermediate Bodies (as already agreed by the Growth Programme Board); and
- The role of local ESI Funds Sub-Committees.

## **Background**

### **Additional Funding arising from the Commission's Mid-Term review**

1. As part of the European Commission's mid-term adjustment of national allocations for cohesion policy the United Kingdom has been allocated an additional €58m for the four years from 2017 to 2020. This adjustment is based on the most up to date statistical data on which the allocation calculation is based. The extra funding indicates that there has been a drop in GDP per head in comparison with the EU average in the UK Less Developed and Transition areas.
2. Margot James MP, the BEIS Minister responsible for cohesion policy across the UK, has concluded that the funding should be distributed to the different parts of the United Kingdom using the same methodology agreed by Ministers for the original 2014-20 allocations. The Minister has written to LEP Chairs setting out what this means for LEP area allocations. Officials have also brought the letter to the attention of local ESIF Committees.
3. The additional amount for England is €38.8m: €1.5m for our single Less Developed region and €37.3m for England's Transition regions. There is no extra allocation for More Developed regions.
4. The allocation covers both ERDF and the European Social Fund (ESF). The EU Regulations require that a minimum of 45.9% of the funding will be given over to ESF; the extra England allocation has been split between ESF and ERDF on that basis.
5. Local partners are currently being consulted on which Priority Axes they would prefer their additional allocations be placed; the Managing Authority has proposed that all funding should go under priority axis 3.

### **Priority Axis 2**

6. The Performance Framework output target for this PA is additional businesses with broadband access of at least 30mbps.
7. The assumptions regarding the number of businesses that are available to be supported through the Programme is not as high as originally anticipated.
8. This is because the original calculation methodology was unable to give proper consideration to the BDUK umbrella State Aid notification, agreed with the Commission in May 2016. In particular:
  - The limitations to supporting ultrafast broadband;
  - A reduction in areas that can be supported both through the calculation methodology and the success of the previous state aid notification that has seen an extra £129m reinvested by the private sector.

9. As a consequence the Managing Authority is proposing that the amount of Funding in the OP to be directed towards Broadband infrastructure be reduced and the average cost of outputs be increased.

### **Priority Axis 5**

10. Under the programme the non-financial Performance Framework target in 2023 for priority axis 5 is P6, the number of businesses and properties with reduced flood risk.
11. The evidence base currently used in the 2014-20 Performance Framework Target Methodology paper is only a single comparator 2007-2013 project which has been mapped across to this priority axis and investment priority. Taking only one project on which to base the unit costs for England assumes that the business density across England as a whole replicated this project; given the diverse nature England's geography it was always likely that reliance on this narrow data source would be problematic and this was highlighted in the paper.
12. The Managing Authority following adoption of the programme has identified a more suitable evidence base for the Performance Framework unit cost calculation; the data set out in the Flood and Coastal Erosion Risk Management Outcome Measures Progress Report published on 6 January 2015. The report identifies the average capital cost of measures that reduce significant risk to non-residential properties was £9,600. The Managing Authority is proposing that this be applied in the Transition and More Developed regions.
13. For the Less Developed region bespoke calculations were done for the Performance Framework and as such they do not require further revision.

### **Priority Axis 6**

14. Following agreement of the programme the need to demarcate between ERDF and EAFRD (Countryside Stewardship) was identified. Specifically in relation to what each fund can support to ensure that there is no double funding by an applicant, as each of the funding streams can support very similar activity.
15. The ability to distinguish between what will be funded by ERDF and what will be funded by the Countryside Stewardship is essential in order to ensure compliance with demarcation requirements under the European Structural and Investment Funds. As such it was concluded that where land is eligible for Countryside Stewardship Funding then ERDF will not provide support.
16. It was anticipated that this would mean that ERDF would deliver activity mainly in the urban environment while Countryside Stewardship would focus on rural areas. In practice, however, potential ERDF beneficiaries have found that Countryside Stewardship funding often fell within areas that they had been intending to carry out investments. The result is that many areas are now unable to make the investments that they had planned and as such seeking a reduction in the PA6 allocation.

17. Local partners are currently being consulted on which priority axes they would prefer their surplus priority axis 6 allocations be placed; the Managing Authority has proposed that all funding should go under priority axis 3.

### **Priority Axis 8**

18. The England ERDF Programme was developed in consultation with local partners. Initial appetite for carrying out CLLD activity was strong, however, following publication of the Commission guidance, “Community-Led Local Development for Local Actors” in August 2014 it became clearer to partners that progressing such investments was going to be more challenging than anticipated.
19. As local partners withdrew their interest in CLLD activity the Managing Authority sought to reflect this in the Operational Programme that was submitted for adoption in 2015. However, during 2015, following submission of the programme to be adopted, it became clear that the Managing Authority had still allocated too much Funding to the priority axis.
20. Calls have now been carried out and stage 1 of the CLLD process has now been completed. As such the Managing Authority now has a clear figure for the ERDF required for CLLD in the programme and has concluded, in discussion with local partners, that there is no appetite for further calls.
21. Local partners are currently being consulted on which Priority Axes they would prefer their surplus priority axis 8 allocations be placed; the Managing Authority has proposed that all funding should go under priority axis 3.

### **Movement of funding from the ESF to ERDF in the Less Developed Region.**

22. The ERDF and ESF Managing Authorities have agreed to progress a transfer of €15.3m from ESF to ERDF PA4 to facilitate further investment in low carbon technologies deemed to be economically and strategically important for the region.
23. The Managing Authorities agreed that it was not appropriate for Cornwall and Isles of Scilly Less Developed region to receive extra NOMS ESF as established by the operational programmes, and that following adoption of both operational programmes, programme modifications would be made to allocate these funds to ERDF. In addition, the ESF Managing Authority has agreed that in accordance with Less Developed region development needs and local strategic plans, it will limit spending on ESF to 25% of the allocation, resulting in a further €2m transfer to ERDF.
24. In total this will see an increase in the less developed region’s priority axis 4 allocation by €15,307,412.
25. Similar changes are being made in the ESF Operational Programme. This means however, that the UK would no longer meet its minimum ESF spend. To ensure this obligation is met the change is being offset by a similar decrease in the more developed region’s priority axis 3 allocation and increase in the ESF more developed region allocation. As such the Priority Axis 3 more developed region ERDF element (union support) will decrease by €15,307,412.

26. This movement of Funding in the More Developed region has already been anticipated by the Managing Authority and as such will not impact on the current More Developed LEP area allocations.

#### **Amend text relating to the eligibility of activity under Priority Axis 4**

27. The text in the OP covering **investment priority 4a** includes a requirement to set a benchmark against GHG emissions using 2013 data. This requirement puts in place an unnecessary level of bureaucracy that does not provide any additional benefit to either the delivery of a project or the collection of data. The data set referenced in the Programme is a data set of renewable generation at a sub national level (regional level). The Programme requires that the proposed strategy will demonstrate an increase by the end of the programming period. The scale of the data set, however, doesn't match the scale of projects being brought forward and puts in place an additional requirement that doesn't serve any particular purpose or benefit.
28. As such the Managing Authority proposes that this text, "which will set a benchmark against 2013 data for the local authority areas covered by it ", be removed from the Programme document.
29. In addition, **Investment priority 4e** currently requires applicants to set their low carbon strategy against the 2011 local authority data. The carbon emissions data being collected at local authority level in England is measured in CO<sub>2</sub> while the programme and any project being developed by an applicant would be measured in CO<sub>2</sub>e as detailed in output target C34. To compare these two measurements isn't possible and therefore a change to the Programme is required to illustrate this disconnect.

#### **The role of Intermediate Bodies**

30. The Growth Programme Board (acting in its role as the England ERDF PMC) was asked to consider changes to Section 2 and 4 of the Programme to reflect the new role of Intermediate Bodies. These changes were approved by Board members on the 15th June 2016.

#### **The role of local ESIF Committees**

31. The Government has recently announced an emphasis on value for money (VfM) in future European Structural and Investment Funds. Whilst the VfM tests against European Funding are already strong it has been concluded that the Managing Authority should also explicitly set out that it will seek advice from local ESIF committees on this matter. As such it is proposed that additional text has been added to the operational programme.
32. This change does not impact on the advisory role of local ESIF committees and all decisions will be taken by the Managing Authority and its Intermediate Bodies.

## **Next Steps**

33. Once the consultation with local partners on allocations is completed then the Managing Authority will work to informally agree the changes with the European Commission. The Managing Authority will then seek GPB approval for the changes through a written procedure.

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29 November 2016