Note for Growth Programme Board

Volume of outputs in the agreements with co-financing organisations (CFOs)

At the March Growth Programme, the ESF Managing Authority was asked to provide a note about the handling of output targets for applications from the national co-financing organisations (also known as opt-in organisations).

The reason members were interested in this is that there is (in some cases) a gap between the level of outputs set out in the agreements with CFOs and the assumptions which underpin the level of outputs in the Operational Programme, and therefore in the pro rata distribution at local level. The output targets need to be met at national level, and the performance risk which this creates is therefore a national, programme-wide one, for the Managing Authority to manage. It is a risk I have decided to accept, for the moment at least. Four factors have led to the gap:

i. The figures in the OP were based on assumptions about the nature of the match funding (and its unit costs) which would be available. The Spending Review has in some cases changed the nature of what is available. CFOs have little choice but to base their cost / output assumptions on this new reality;

ii. The figures in the OP were also based on assumptions about the unit cost of the ESF-specific provision which would be bought. These were, at the Commission’s insistence and for logical reasons, based on evidence of what was achieved in the 2007-13 programme. I was able to negotiate a range of adjustments to reflect programme differences, but I could not ignore this evidence base. In some cases the CFOs are sceptical about whether these unit costs are achievable in the provider market.

iii. In some cases the level of outputs proposed in the applications from CFOs and therefore carried forward into the agreements has been based on local conversations with partners, more than on what is suggested by the OP. This is not ideal, but reflects the difficult balance the CFOs are being asked to achieve between being responsive to both local demands and national requirements.

iv. The unit cost assumptions underpinning the OP are in sterling, but are then converted to euros to calculate the number of outputs which can be delivered for the fixed amount of euros in the OP. The recent strengthening of the euro against sterling means that for every €1m we spend at a fixed sterling unit cost, the fewer outputs we will achieve.

My plan for handling this risk is as follows:

- I have agreed with the CFOs that the level of outputs in their agreements will be revisited once they have completed their procurement exercises. At that point we will be dealing with fact rather than assumption. This may lead to a closer alignment with the OP assumptions; this deals with points (ii) and (iii) above.

- If the market response indicates that the unit cost assumptions in the OP are too low, then I will have hard evidence on which to approach the Commission to seek to renegotiate the targets. The strength of the CFO model is that the competition between bidders responding to a specific Invitation to Tender will generate a “best price”. This deals with point (ii) above.

- Since I was careful to document the detail of my assumptions in the OP, I also have the basis for re-opening negotiations with the Commission about the effect on the targets of the changes in the available match funding (point (i) above).

- The exchange rate issue is more difficult, since (a) it changes every month and it would clearly be nonsensical to change the OP that often; (b) it can move in both directions. I therefore plan to use this, as circumstances dictate, as an explanation of any shortfall rather than as the basis for change to the targets.

There is, of course, no guarantee that attempts to renegotiate the output targets with the Commission will be successful, but they are always open to sensible discussion.

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