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

Growth Programme for England

ESI Funds Growth Programme Board

Phasing Commitments in the 2014-2020 ERDF Programme

Purpose:
To seek Growth Programme Board (GPB) agreement on how to handle LEP area proposals to sign contracts that will see limited or no funding available at the later stages of the Programme.

Recommendations:
The Board agrees that a review will be triggered by a proposal to sign contracts, before 2019, to a value above 75%[1] of a LEP area's PA1 (Research and Innovation) and PA3 (SME Competitiveness) allocations excluding the value of Financial Instruments and the process for that review.

Summary:
Delivery of the 2014-20 ERDF programme is progressing well. In some LEP areas and Priority Axes (PAs), high levels of applications (typically for three year contracts) mean that progress towards commitment is near to 100% of available funding. Whilst this is not yet manifest in signed contracts, there is potential for most of the ERDF to be contractually spent by the end of 2019 in some areas and PAs, (excluding FIs, which will run to the end of 2023). This risk being greatest in PA1 (Research and Innovation) and PA3 (SME Competitiveness) which combined account for 62% of the programme.

Since the programme is designed to provide support up to 2023, a lack of ERDF beyond 2019 may impact on local SME growth in some LEP areas, particularly in the key priorities of Research and Innovation and Business Support. Conversely, early investment will positively aid the achievement of programme spend and output targets.

The ERDF Managing Authority accepts that this early investment may be the right approach in certain local areas. Such decisions, however, should not put the performance targets of the national programme at risk nor compromise national management of the performance reserve.

As such a review will be triggered by a proposal to sign contracts, before 2019, to a value above 75% of a LEP area's PA1 and PA3 allocations excluding the value of Financial Instruments. The 75% figure being the Euro allocation in sterling at the forward rate applicable at the time.

When a review is triggered local will work with local partners to build the evidence base for the review and will involve them in the decision-making process.

Local partners who do not agree the MA decision should have recourse to the dispute resolution process managed through the Performance and Dispute Resolution sub-committee and GPB.

[1] The 75% figure being the Euro allocation in sterling at the forward rate applicable at the time.

Background

1. Since the launch of the 2014-20 ERDF Programme in March 2015, there has been a strong response to a series of project calls across LEP areas in relation to the allocations and corresponding targets in each case.

2. The level and quality of funding applications has exceeded plans and expectations in some LEP areas and Priority Axes (PAs). As a consequence, allocations to funding applications at outline stage are near to 100% of available funding in a few cases. Whilst there will be some natural attrition of agreed outline applications, previous performance suggests that approximately 67% will translate into full applications. Of these full applications, approximately 95% will end up as signed contracts.

3. There are a number of factors that are contributing to this position:

    - The organisation of ERDF in England into 39 LEP area plans has given a stronger local impetus to delivery;
    - The division of ERDF in England into 39 sub notional allocations has meant that a small number of reasonable scale projects in each case (which have been encouraged by a 'fewer, larger' approach and minimum investment thresholds) can quickly absorb the majority of available funding; and
    - There is a stronger performance framework in 2014-20 than in previous programmes that is driving high levels of early commitment. If specific spend and output targets are not met by the end of 2018, 6% of the programme (the Performance Reserve) will not be released. Partners are aware of these targets, and are responding accordingly, to ensure their achievement and release of this 6% funding locally.

Considerations

4. If available funding is committed to near 100% levels in certain LEP areas and PAs, this will mean there will be little left to spend on particular ERDF priorities in the second half of the programme, from 2019 onwards. This risk varies between PAs.

5. The biggest risks are in PA1 Innovation and PA3 SME business support, which combined account for 62% of the programme. Together they provide the core ERDF local growth offer and are under the most early commitment pressure. If these PAs are almost fully spent by 2019, this could mean that there is insufficient ERDF to meet key local growth demands for business support provision and investment in innovation, which are typically required on an on-going basis as a key component of local growth. Because alternative domestic funding for some of these activities has been reduced (for e.g. the closure of the Business Growth Service), the impact of a lack of ERDF over several years in these two PAs may be felt particularly acutely.

6. The risk is lower for other PAs. PA4 low carbon growth, which has 22.3% of the funding, is more challenging to deliver and so less committed. The other PAs, for broadband, flood defences, environment, transport in Cornwall and Community Led Local Development, make up only 11.7% of the programme. Because they are tied to specific initiatives and timetables in the LEP areas where they apply and are often

driven by capital investment programmes and needs which will benefit SMEs over the life of the programme, early commitment is less of an issue in these cases.

7. The funding from the European Commission is broken down into annual commitments from the EU Budget set at category of region level. The N+3 rule allows those annual commitments to be spent over a 4 year period and then if not spent then lost (de-committed). The converse is also true if expenditure is too fast then a situation could arise that claims could exceed the EU Budget commitments available at that time and as such reimbursement would be delayed until sufficient EU Budget commitments were in place.

8. There are valid for reasons for contracting commitment levels in PA1 and PA3 to near 100% in some cases and also benefits to the programme as a whole:

   - The local growth plan in some LEP areas may require high levels of investment in the first half of the ERDF programme to provide the right conditions for sustained growth (without/with little ERDF support) in the second half of the programme;
   - Rapid delivery in some LEP areas may help to compensate for below-target delivery in other LEP areas, as the basis for achieving OP-level targets; and
   - Early spend will also help to mitigate the drag on delivery caused by the need to remove at risk expenditure from declarations to the EC (up to 30%) and likely loss of 10-20% of contracted commitments through project underspends.

9. It would not be without precedent either for ERDF to be distributed unevenly over the life of the programme in various geographic areas; a rolling programme of investment in places in previous ERDF programmes was not uncommon as particular needs and opportunities opened up over each seven-year cycle. However, it would have been less usual for entire functional economic areas such as city regions to be exhausted of ERDF in the first three years in relation to spend on innovation and business support

10. Financial Instruments (FIs) will help to alleviate the position in some areas, because they provide an investment vehicle for funds committed to them throughout the Programme period to 2023. Over 67% (£342.4m ERDF) of all FI investment have either already been announced (NPIF, NE Investment Fund, and MEIF) or are already well advanced (Greater Manchester UDF), with others in the pipeline (e.g. London or Cornwall & Isles of Scilly). They also will generate returns that can be recycled later in the programme period, and offer the potential to lever in additional legacy funding (as public Match) from the 2000-06 and 2007-13 Programmes. However, whilst FIs provide a range of support, they typically target different groups from those supported by grant projects and so will not be able to substitute fully for provision delivered under PAs that are committed early.

Recommended approach and next steps

11. ERDF has been designed nationally and locally to deliver a programme of local growth between 2015 – 2023, to ensure continuity of provision and responsiveness to economic circumstances up to 2023. If support is to be available over this timeframe, the pace of financial commitments may therefore need to be adjusted in some funding priorities.

12. As set out above, early spend of PA1 and PA3 represent the biggest risks. There is a case therefore for requiring a review in cases where the level of contracted spend in these PAs is at 75% of available funding (excluding FIs) up to the end of 2019. The 75% figure being the Euro allocation in sterling at the forward rate applicable at the time. This proposed review trigger point is at a level that balances ERDF performance targets and local economic needs.

13. In each case where spend levels are proposed above this threshold, the GDT will work with Intermediate Bodies (where established) and the local ESI Funds sub-committee partnership to review the case and recommend as appropriate the local basis for pre-2019 contracted spend (excluding FIs) above 75% of available allocations in PA1 and PA3.

14. For both Priority Axes the ERDF Managing Authority when carrying out its review will give consideration to the following:

    - Does the proposed investment include the performance framework element of the LEP area notional allocation;
    - Will approval result in the category of region European Commission funding commitment levels being exceeded;
    - Will the investment make a sufficient contribution to the Performance Framework Targets; and
    - Is there a clear rationale from local partners for exceeding the 75% commitment threshold, in particular, that the local strategy addresses the impact on local growth needs up until 2023?

15. There are risks to introducing a review of commitment levels. Early commitment is important to ensure delivery of spend and output targets. Deceleration of commitments may compromise our ability to meet targets. The review trigger level is key to managing - and reflects - this risk.

16. The Managing Authority through the local GDTs will work with local partners to build the evidence base for the review and will involve them in the decision-making process.

17. Local partners who do not agree the Managing Authority decision should be able to have recourse to the dispute resolution process managed through the Performance and Dispute Resolution sub-committee and GPB.

2 June 2016
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