



European Union

European Structural
and Investment Funds

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

Growth Programme for England

ESI Funds Growth Programme Board

ERDF Programme Delivery

Purpose:

To advise the board on progress with European Regional Development Fund (ERDF) Programme delivery to 31 December 2017.

Recommendation(s):

That the Growth Programme Board note the current position.

Summary:

Overall Progress on Contracting

As at 31 December, 494 projects with ERDF funding of £1253m have been contracted. Compared to the previous quarter, to 30 September 2017, this is an increase of 38 contracted projects, for an additional £33m ERDF. The figure is lower than forecast mainly due to the GLA financial instruments now not expecting to contract until 2018. Overall, 44% of the programme budget has been contracted. For the less developed the figure is 58% for transition and more developed regions, 39% and 44% have been contracted respectively.

Following closure of the September calls, there are 469 applications currently being assessed for £1005m ERDF (including 3 financial instruments). This represents 35% of funds allocated to England.

Overall Progress by Priority Axis (PA)

The *forecasts* from projects already contracted suggest the programme will meet its 2018 performance framework targets for PA1 (all regions), PA2 (less delivered region and transition regions, and the more developed regions output target), PA3 (all regions), PA4 (less developed region only), and PA7.

There are some areas of the programme where the current data suggests that meeting the 2018 performance framework targets will be challenging or not possible. Delivery risks remain for PA2 more developed regions expenditure targets; PA4 expenditure and output targets (transition/more developed regions); and PA5 expenditure targets / PA6 expenditure and outputs / PA8 expenditure (all categories of region).

Overall Progress – Expenditure

The managing authority's focus remains on supporting partners to submit claims in a

timely way. Cumulative claims paid by the managing authority total £210m to December, an increase of £46m from the previous quarterly.

Targets and Programme Performance

Achievement of the N+3 expenditure target is challenging this is because of the exchange rate changes which have increased the target by 15% and also due to project spend forecast falling behind profile. The position is being proactively managed with key projects being closely monitored along with claim submissions.

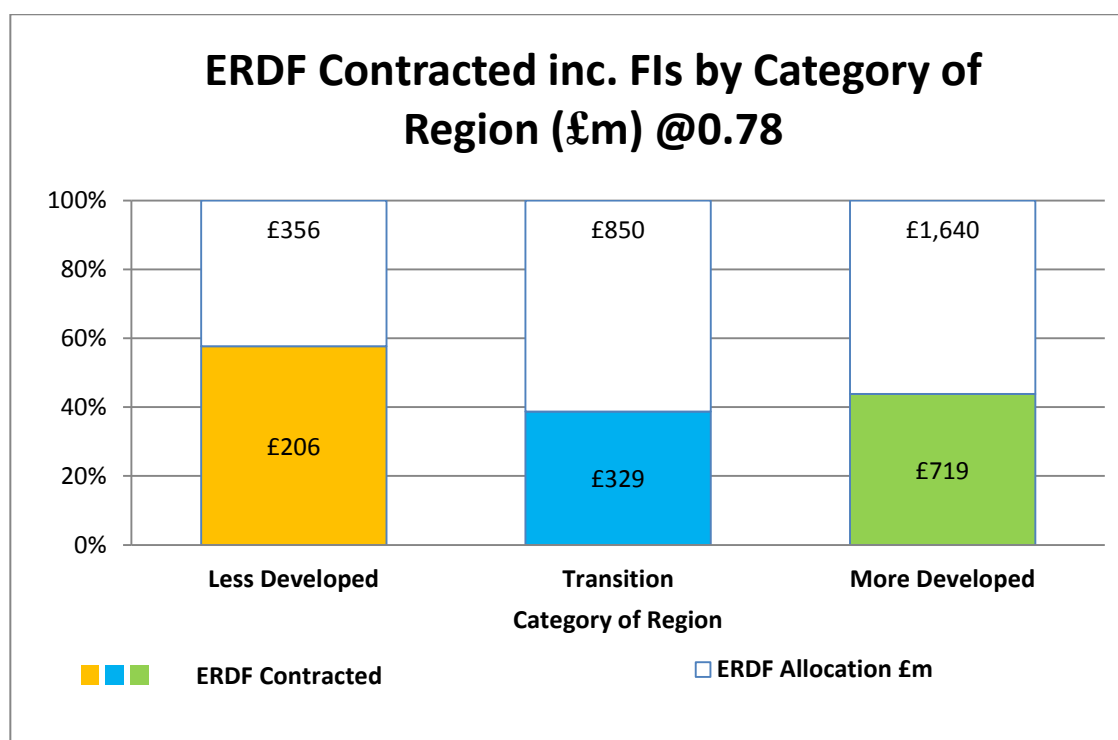
A call round for £247m was issued in December with a closing date of January 2018. A further call for £334m is about to be published. Additionally, further rounds have been pencilled in for October 2018 and March 2019.

Programme Delivery Report to 30 December 2017

1. The ERDF 2014 to 2020 Programme value is €3649m. Using the exchange rate of €1 = £0.78, values the programme at £2846m. This represents an increase of £16m following the programme modification.
2. The rate of 0.78 is used when reference is made to the programme budget and the contracting position. In relation to the certifying authority payment applications submitted to the EC, this is based on the actual exchange rate at the time of submission. Progress against performance expenditure targets (set in euros) use the rate of €1 = £0.90.
3. Forecast expenditure from contracted projects is discounted by 30 % to reflect project slippage and audit issues. Forecast performance framework outputs from contracted projects are discounted by 20%. The discounts reflect operational experience from the previous programme.

Programme Budget & Contracting

4. The chart and table below shows the amount and % of ERDF that have been contracted, by category of region, compared with the programme's budget (or allocation).



5. As at 31st December, 44% of the total budget has been contracted. By Category of Region this is less developed; 58%, transition; 39% and more developed; 44%.

Category of Region	ERDF Allocation £m	ERDF Commitment £m	ERDF Commitment %	ERDF Commitment & Pipeline %
Less Developed	£356	£206	58%	107%
Transition	£850	£329	39%	68%
More Developed	£1,640	£719	44%	79%
	£2,846	£1,253	44%	79%

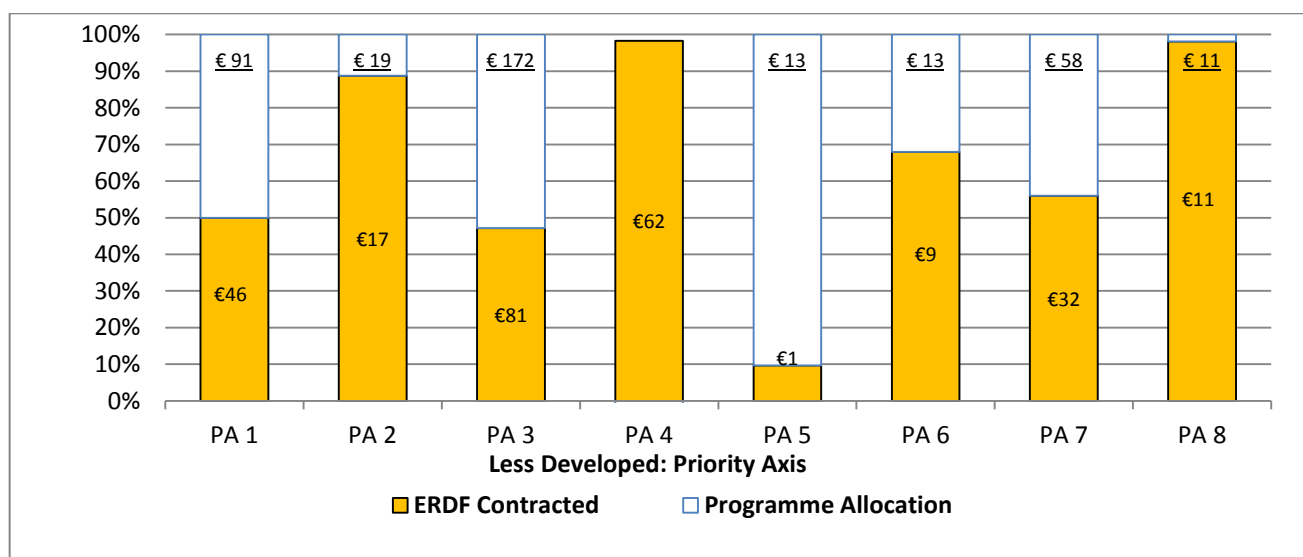
* Some further reallocation expected linked to European Social Fund activity

6. The ERDF value of projects contracted and applications in the system amount to 79% of the programme budget (963 projects at £2258m).

By Category of Region

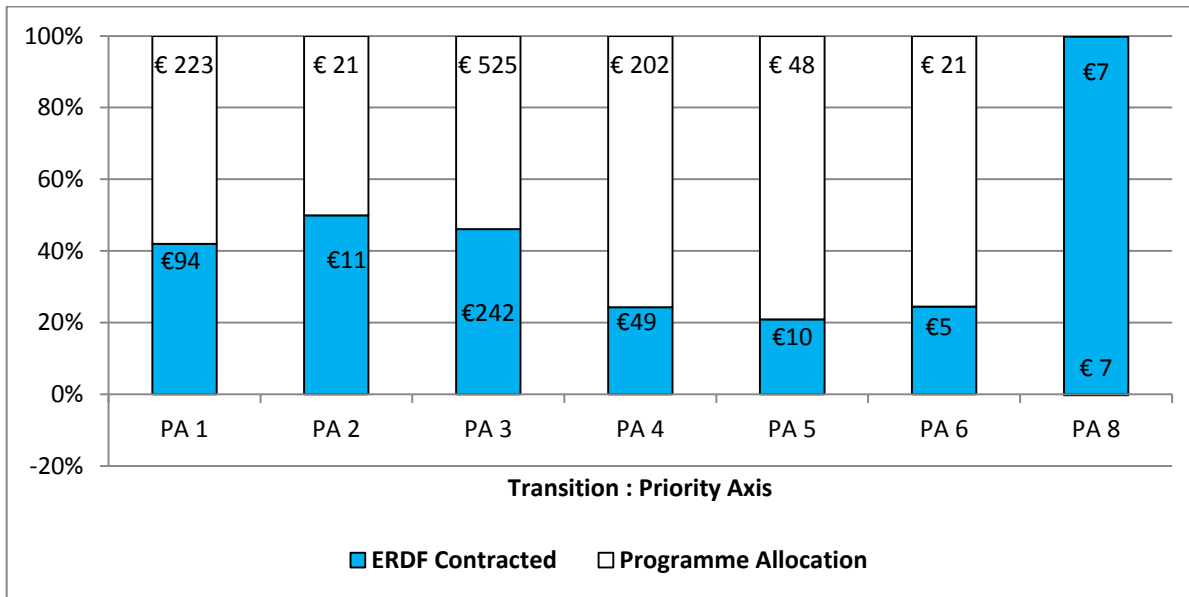
7. The charts & tables below show the contracted % by category of region and priority axis.

Less Developed Region: ERDF contracted by priority axis (€m)



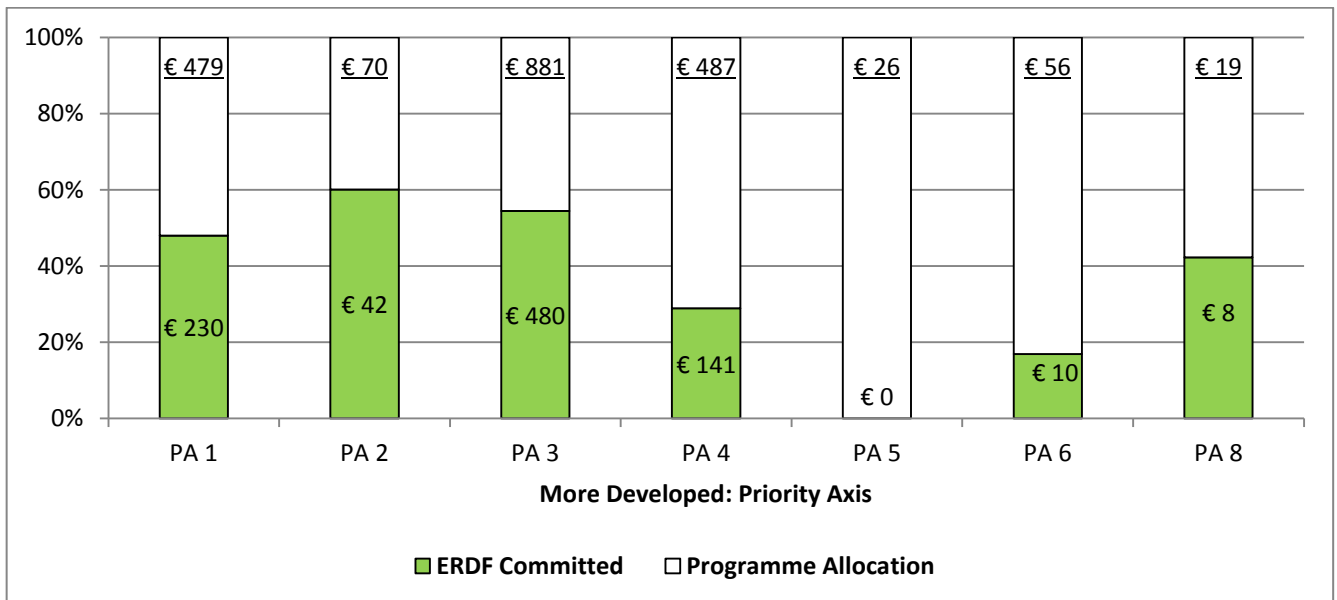
8. As previously reported, the less developed region is doing well contracting funds. The chart shows 4 priority axes over or nearly over 50% contracted - PA1, PA3, PA4, PA7. There are a further 3 priority axes which are over 90% contracted - PA 2, PA4 and PA8. The exception is priority axis 5 which has contracted limited funds. The issue with contracting in this priority is not unique to the region and is reflected across the programme reflecting the nature of the activity proposed

Transition regions: ERDF contracted by priority axis (€m)



9. In comparison to the other categories of regions the transition regions are doing less well in relation to contracting. The chart shows 3 priority axes that are close to 50% contracted - PA1, PA2, and PA4. There is 1 priority axes (PA8) fully contracted. Priority axis 4, PA5 and PA6 are around 20 - 25 % contracted. The low contract rating impacts on the ability to achieve the performance expenditure and output targets.

More developed region: ERDF contacted by priority axis (€m)



10. Slightly higher commitment rates than transition regions. The chart shows priority axes 1, 2 and 3 with 50% or more of funds contracted. PA4 stands at 30% with PA6 at around 18%. PA5 has not contracted any funds. PA8 is about to fully contracted. The low contracting rates impact on the ability to achieve the 2018 performance framework targets

N+3 Decommitment Rule

11. The Commission will automatically decommit funds for which it has not received an acceptable payment request by the end of the third year following approval of the operational programme.
12. The England OP was approved in 2015, therefore the budget stated in our operational programme in this year has to be defrayed by the applicant as eligible expenditure and submitted in a Payment Application to the Commission by 31 December 2018 (with adjustments made for pre-financing). This process then applies cumulatively to future years of the programme in the same manner.
13. The table shows the N+3 target at operational programme level for 2018 is €573m (or £515m @ 0.9ER). The change in the exchange rate from 0.78 to around 0.9 has meant an increase of £68m in the current 2018 N+3 target. Progress against the target is also shown by category of region and at operational programme level. The target is reduced by the value of payments submitted by the certifying authority to the Commission. Four payment applications to the Commission, totalling €206m, have now been made by the certifying authority.
14. N+3 is based upon the ERDF contribution towards total declared expenditure at the category of region intervention rate rather than the value of actual payments at the project level intervention rates.

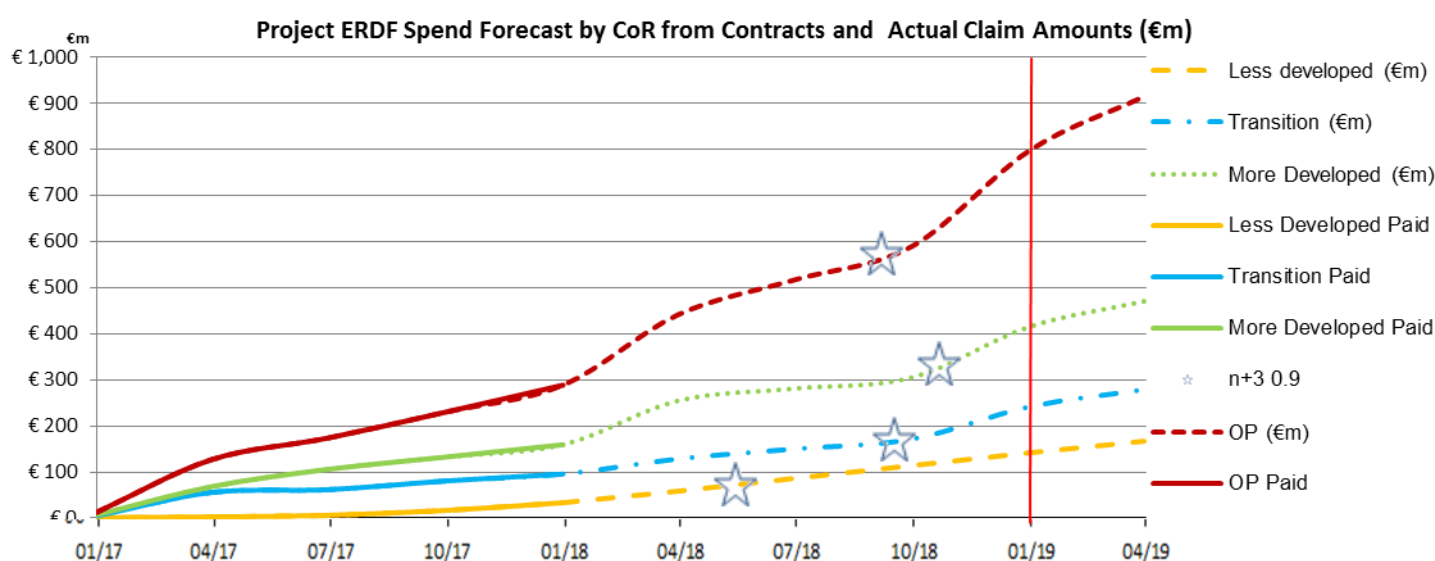
N+3 2018	Less Developed	Transition	More Developed	Total
N+3 target for payment claims (€m)	€ 72	€ 169	€ 332	€ 573
Less Payment applications submitted to the Commission at relevant exchange rate by 31 ST December 2017	€ 5	€ 73	€ 128	€ 206
Current gap (€m)	€ 67	€ 96	€ 204	€367
MA level : Total eligible cost paid, per category of region, at programme level intervention rate (80%, 60%, 50%) - @ 0.9 ER	€ 29	€ 23	€ 31	€83

15. The indicator at MA level, shown in the above table, shows the value of claims paid by the MA not yet submitted to the Commission for reimbursement by the certifying authority.
16. The current N+3 forecast analysis:
- looks at claims paid
 - reduces project spend forecasts by 30% for non-financial instrument projects,
 - assumes that slippage will only be caught up at an average of 10% per quarter,

- assumes one drawdown from 7 financial instruments (4 contracted and 3 under development) to September 2018.

17. The chart below reflects the above provisos using an exchange rate of €1 = £0.90.

18. The chart shows what has been paid to date by the managing authority (to December 2017) and future forecasts from projects. Over time the forecasts have moved over to the right. The chart shows that the programme will need expenditure incurred to September 2018 and claims submitted covering that period in order to meet the N+3 target at operational programme level. Given the processing times to check and verify claims prior to submission to the EC this will be challenging. The MA is closely managing the position to reduce the risk of falling below target.

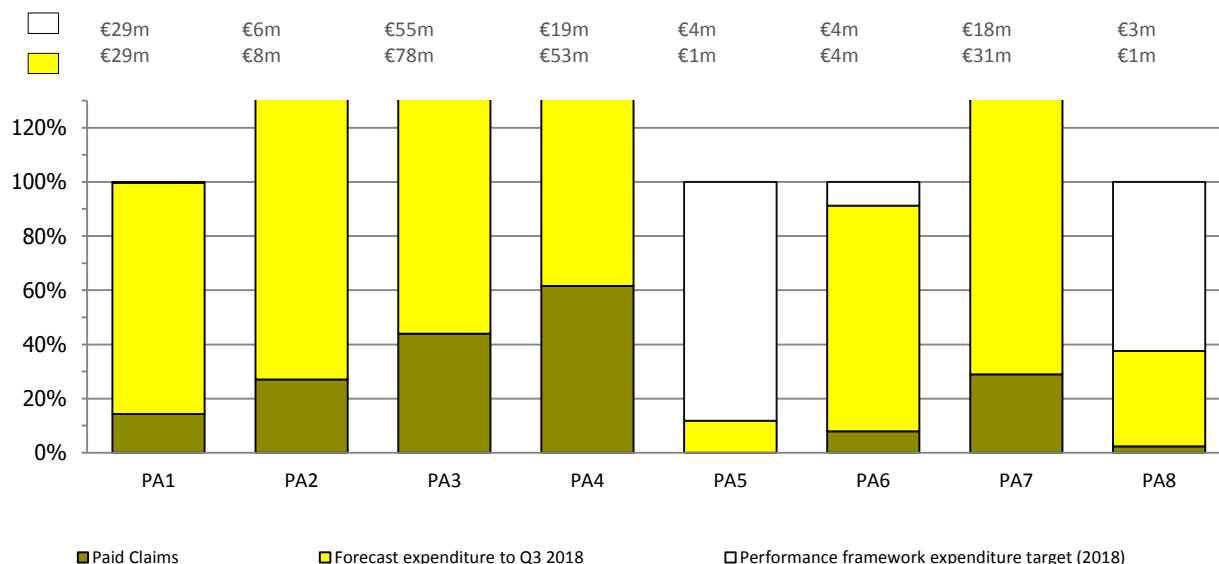


Progress against Performance Framework Expenditure Targets and Outputs

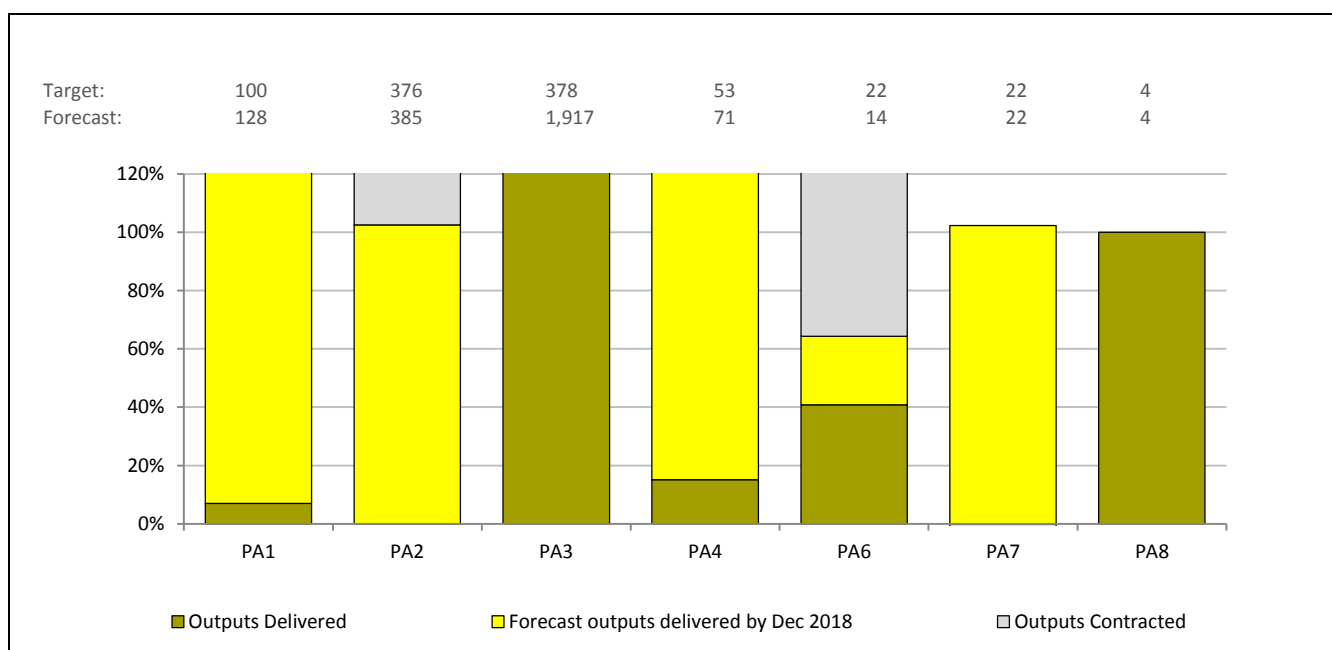
- The targets in the charts reflect the modification targets to be achieved by December 2018. The targets are set at category of region level and by priority axis. The Commission deems the individual target to have been met when 85% or above has been achieved.
- The forecast expenditure from contracted projects has been reduced by 30% for all projects except financial instruments.
- The forecast outputs from contracted projects have been reduced by 20% for all projects.
- The reductions are based on anecdotal evidence from the 2007-2013 ERDF programme for expenditure and output slippage rates.

Less developed region:

Forecast expenditure from contracted projects (less 30% non FIs) against 2018 targets including paid claims (€m)



Forecast performance framework outputs from contracted project (less 20% all projects) against 2018 targets including outputs claimed

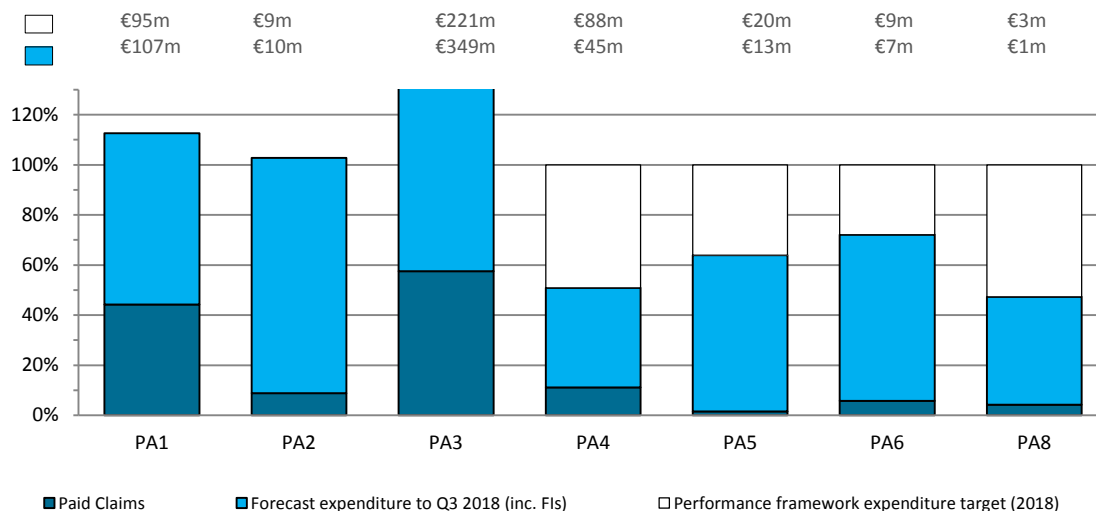


- PA1, PA2, PA3, PA4 and PA7 are forecasting to achieve the performance framework spend and output targets. However claims paid and actual outputs achieved to date need to pick up across the region.
- PA3 and PA8 have met the performance framework expenditure output target.

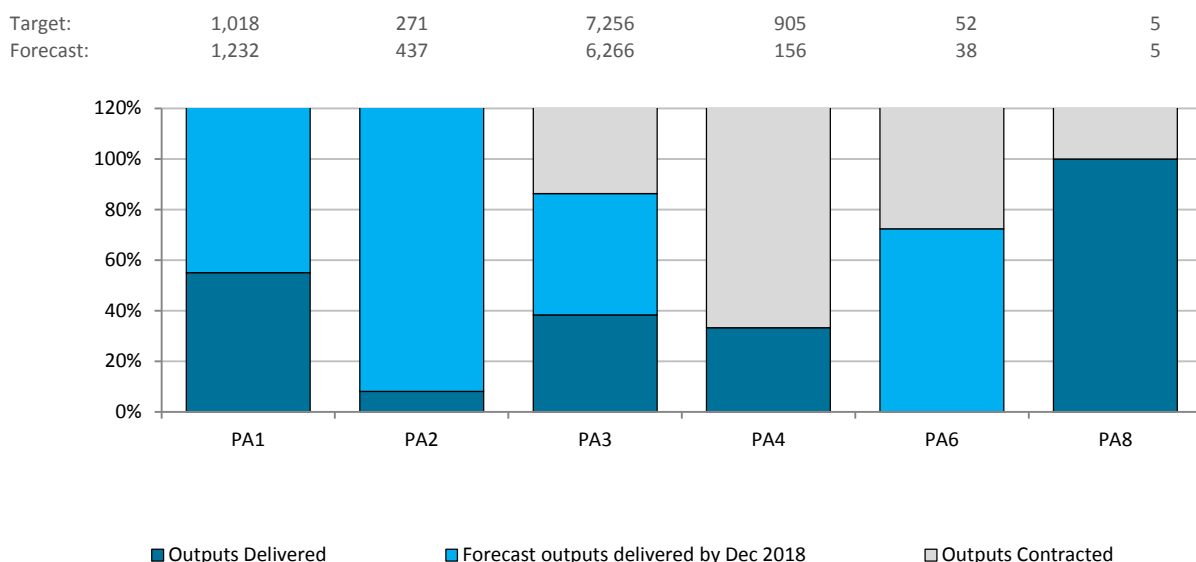
- PA6 needs close monitoring as there are insufficient contracts in place for the performance framework output target to be achieved and low actual expenditure achieved to date
- PA5 and PA8 will not achieve the performance expenditure targets due to limited contracts being in place (PA5) or the processes to go thorough before contracting means it is only recently that funds have been committed (PA8)

Transition regions:

Forecast expenditure from contracted projects (less 30% for non FIs) against 2018 targets including claims paid (€m)



Forecast performance framework outputs from contracted project (less 20% all projects) against 2018 targets including outputs claimed

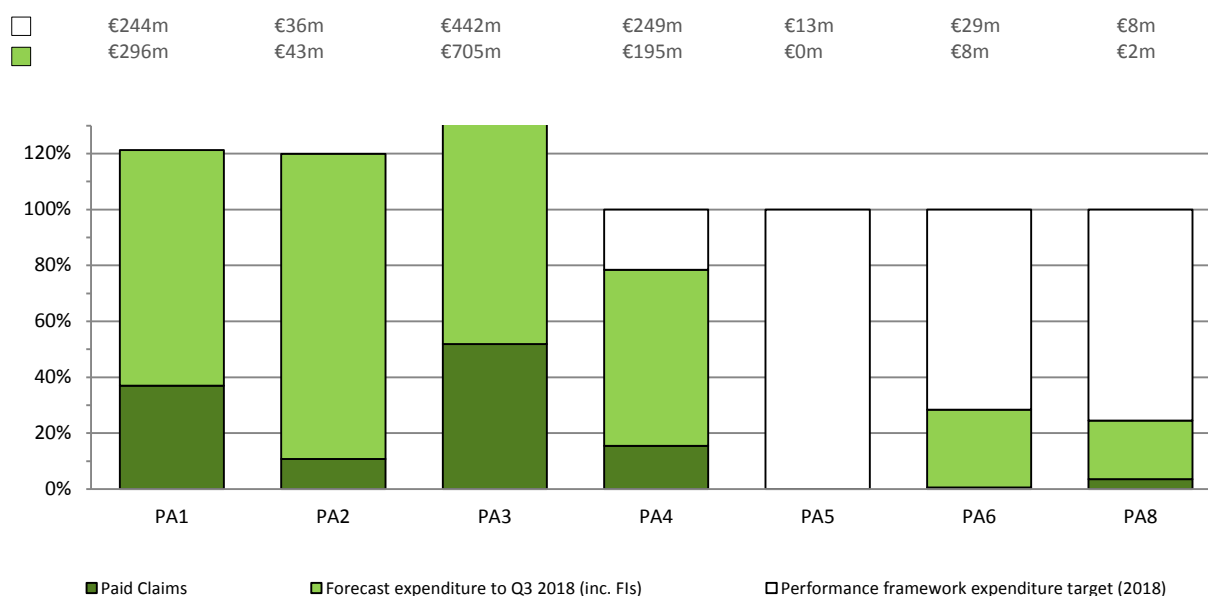


- The transition regions are forecasting to achieve PA1, PA2 and PA3 performance framework expenditure and output targets.
- Claims paid need to improve for most priority axes

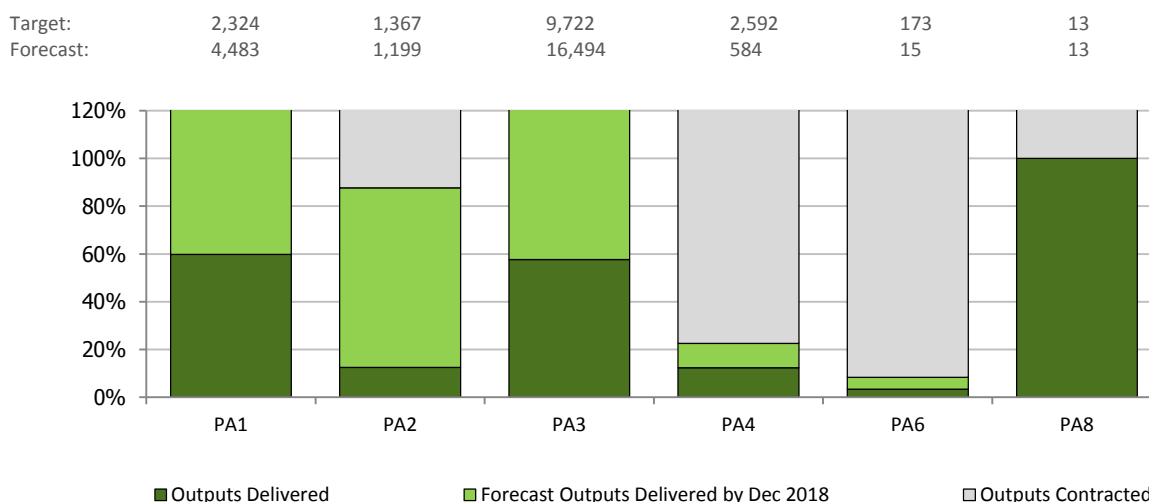
- PA4 & PA5, PA6 and PA8 will not meet the performance framework expenditure targets. It's a similar picture for outputs under PA4 and PA6.

More developed region:

Forecast expenditure from contracted projects (less 30% non FIs) against 2018 targets including paid claims (€m)



Forecast performance framework outputs from contracted project (less 20% all projects) against 2018 targets including outputs claimed



- For more developed regions PA1 and PA3 are forecasting to achieve the 2018 performance framework targets. This looks realistic when referenced against expenditure and outputs claimed to date.
- PA2 needs close monitoring to improve the output achieved and claims paid. Achievement of the targets is looking increasingly at risk despite the forecasts.
- The position on expenditure for PA4 should improve with the contracting of the GLA financial instrument, 2018, and the subsequent 25% drawdown.

- PA5 (expenditure), PA6 & PA8 (expenditure) will not meet the Performance framework targets

Programme call schedule

23. A new call round has been published in March 2018 for £334m. Additionally, further call rounds have been pencilled in for October 2018 and March 2019.

24. Intermediary bodies (IB) and strategic urban development (SUD) calls are not required to follow this schedule and are subject to local/GDT agreement.

Financial Instruments

25. To 31st December 2017, the programme has four financial instruments (FIs) contracted for £337m ERDF. Three of these made their first drawdown of funds in March and May 2017. When issues relating to EIB match are resolved the fourth FI will make its first draw down by Spring 2018. There are three other financial instruments in an advanced stage of development worth £107m. These remain on track and expect to be contracted and have drawn down their first tranche of funds in 2018.

Community-Led Development (CLLD)

PA8 - Contracting				
ERDF	LEP Allocation	Application	Live	In GFA
Transition				
Humber	£2,353,000	£0	£2,351,936	£0
North Eastern	£1,730,704	£0	£1,745,003	£0
York and North Yorkshire	£1,312,880	£0	£1,312,856	£0
Total	£5,396,584	£0	£5,409,795	£0
%	100	0	100	0
More Developed				
Leeds City Region	£6,254,435	£0	£6,148,396	£0
North Eastern	£2,662,533	£0	£2,653,443	£0
South East	£4,637,183	£0	£29,768	£4,623,927
York and North Yorkshire	£1,425,445	£0	£1,423,490	£0
Total	£14,979,596	£0	£10,255,097	£4,623,927
%	100	0	68	31
Less Developed				
Cornwall and the Isles of Scilly	£9,350,001	£0	£8,788,000	£0
Total	£9,350,001	£0	£8,788,000	£0
%	100	0	94	0
Total LEP Allocation PA8	£29,726,182	£0	£24,452,892	£4,623,927
%	100	0	82	16

26. All 21 ERDF CLLD applications have been approved. DWP have approved 20 of the 21 joint-funded applications, with DWP continuing to examine the Tilbury project due to vfm issues.
27. Less Developed is 94% committed and Transition 100% committed. Commitment in More Developed will be 99% should the two South East Funding Agreements currently being prepared be executed, and if DWP approve the Tilbury project enabling MHCLG to issue the ERDF Agreement. No further rounds of CLLD calls are planned.
28. Joint Project Inception Visits with DWP were unable to be fulfilled by DWP due to resource issues, so ERDF-only PIVs have commenced and will be completed by the end of March enabling first grant claims to be submitted.
29. The first CLLD Operational Steering Group chaired by the SRO Lesley Calder was held on 7 February. The Group discussed the significant performance challenges in 2018 for PA8. There is insufficient expenditure in Funding Agreement profiles to achieve 2018 Performance Framework expenditure targets by COR. This is attributable to:
- Eligibility/VFM issues in respect of CLLD strategies/full applications
 - Capacity/experience of grant recipient organisations, particularly in preparing robust grant management materials (i.e. establishing local systems to distribute grant compliantly)
 - DWP delays in appraisal/approval
 - Long lead in time for organising LAGs and grant award processes post-issuing of Funding Agreements
 - Long lead in time for community-based activity to start delivering activity
30. PA8 has met the 2018 Performance Framework milestone target 'number of local development strategies agreed' by COR. Meeting the regulatory requirement for CLLD strategies to be developed and agreed before any PA8 applications could be considered, has reduced the window in which to spend funds to meet the performance framework expenditure targets.
31. The Group is undertaking a review of Funding Agreement profiles and Local Action Group (LAG) call activity to establish robust expenditure forecasts for 2018 and 2019.
32. The majority of CLLDs projects have launched and issued first calls and responses to call indicate that there is significant pipeline demand.

Compliance

33. The Commission requires an annual schedule of first level compliance checks to be undertaken by the managing authority (MA). The general principle of the A125 on the spot verification visit (OTSV) is to test that ERDF projects and financial instruments (FIs) are delivering their contracted requirements, in accordance with the regulations as set out in the Council Regulations (EC) 1303/2013 and identify any potential areas requiring correction. The work undertaken by the Compliance team provides assurance to the Commission whilst reducing the impact of irregularities on the MA error rate.

Visits Undertaken (2016 OTSV Schedule)	Value of claims selected for testing	Amount Tested	At Risk	At Risk %
142	£ 32,477,128	£ 22,678,584	£ 1,973,904	6.08%

Visits Undertaken (2017 OTSV Schedule)	Value of claims selected	Amount Tested	At Risk £	At Risk %
83	£ 122,953,926	£ 31,039,156	£ 826,328	2.66%

Progress on OTSV visit actions

	Number of actions raised	Number of actions closed	Actions open	Actions open more than 3 months
2017	158	120	38	20
2016	414	400	14	92

34. Monthly analysis of A125 visit actions is undertaken. Patterns and trends are identified and this is fed back into the business process; sharing lessons learnt and taking action to address areas of non-compliance.

35. Actions to date broken down by category:

