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 March 2018.

Recommendation(s):

That the Growth Programme Board note the current position.

Summary:

Overall Progress on Contracting

As at 31 March, 518 projects with ERDF funding of £1347m have been contracted. Compared to the previous quarter, to 31 December 2017, this is an increase of 24 contracted projects, for an additional £94m ERDF.

At the end of March there are 532 applications currently being assessed for £1,059m ERDF (including 2 financial instruments). This represents 37% of funds allocated to England.

Overall Progress by Priority Axis (PA)

The *forecasts* from projects already contracted suggest that Priorities 1, 3 and 7 will meet their 2018 performance framework targets across all categories of region for both expenditure and outputs.

Priorities 2 and 4 are forecasting to meet all of their output targets across all categories of region. Priority 2 is however showing a shortfall against its transition region expenditure target (68% against the target of >85%) and Priority 4 is lagging behind on both transition and more developed region expenditure targets (28% and 50% respectively).

Priorities 5 and 8 are significantly below the performance framework expenditure targets although Priority 8 has achieved 100% of its performance reserve output targets.

Priority 6 presents a mixed picture, *forecasts* indicate that less developed area expenditure and output targets will be met; transition region expenditure targets will be missed but outputs exceeded and the more developed region lagging behind on both expenditure and outputs.

Overall Progress – Expenditure

The managing authority's (MA) focus remains on supporting partners to submit claims in a timely way. Cumulative claims paid by the MA total £273m to 31 March 2018, an increase of £63m from the 31 December 2017 total.

Targets and Programme Performance

Achievement of the N+3 expenditure target remains challenging - this is because of the exchange rate changes which have increased the target by 15% and also due to project spend forecasts falling behind profile. The n+3 analysis contained within this paper suggests however that the target is achievable although dependent on continued close monitoring by MA contract managers.

To assist, a continuous improvement project reviewing the claims process has put forward suggestions to improve claim processing time. A pilot project will be rolled out around the network during the second quarter of the year.

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

Programme Delivery Report to 31 March 2018

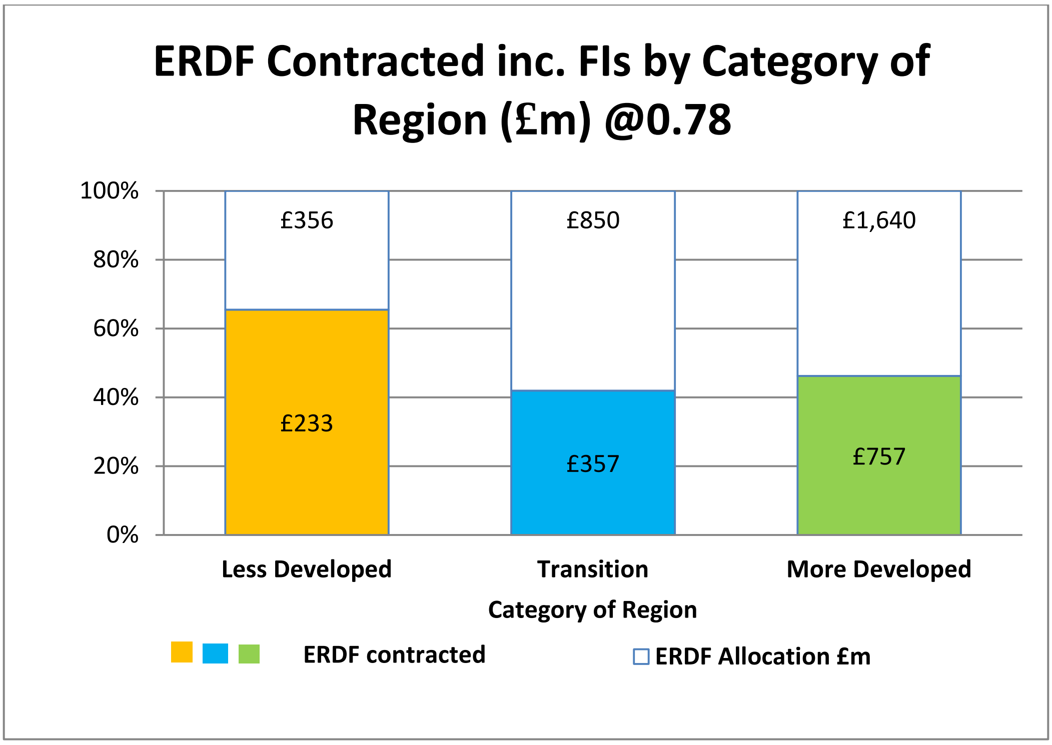
1. The ERDF 2014 to 2020 Programme value is €3,649m. Using the exchange rate of €1 = £0.78, values the programme at £2,846m. This represents an increase of £16m following the programme modification.

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 March, 47% of the total budget has been contracted. By category of region this is less developed; 65%, transition; 42% and more developed; 46%.

Category of Region	ERDF Allocation £m	ERDF Commitment £m	ERDF Commitment %	ERDF Commitment & Pipeline %
Less Developed	£356	£233	65%	101%
Transition	£850	£357	42%	75%
More Developed	£1,640	£757	46%	86%
Totals	£2,846	£1,347	47%	85%

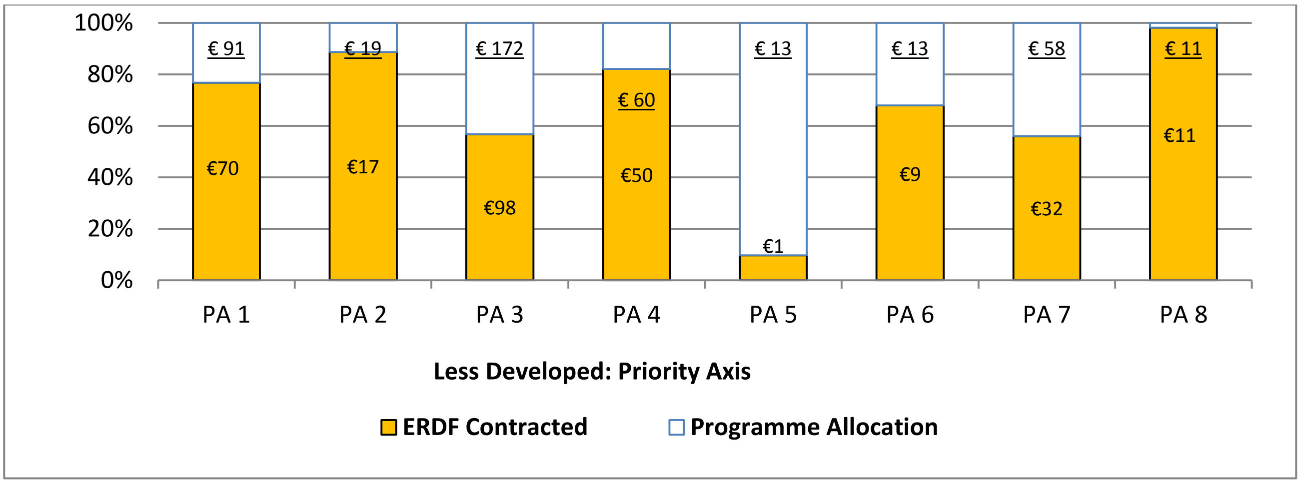
* Some further reallocation expected linked to European Social Fund activity

6. The ERDF value of projects contracted and applications in the system amount to 85% of the programme budget (1050 projects at £2,406m).

By Category of Region

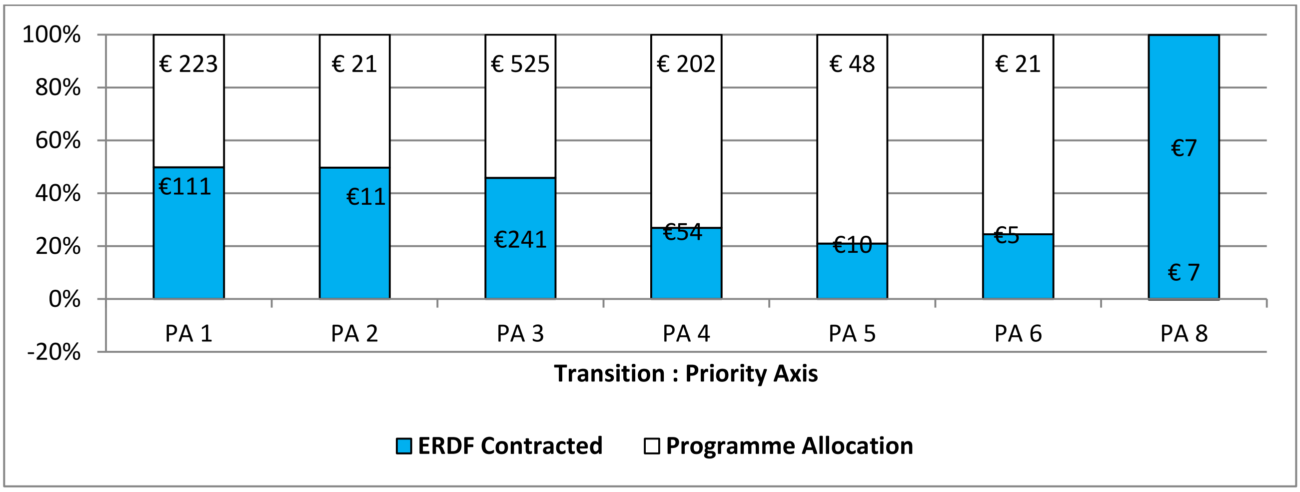
7. The charts & tables below show the contracted % by category of region and priority axis.

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



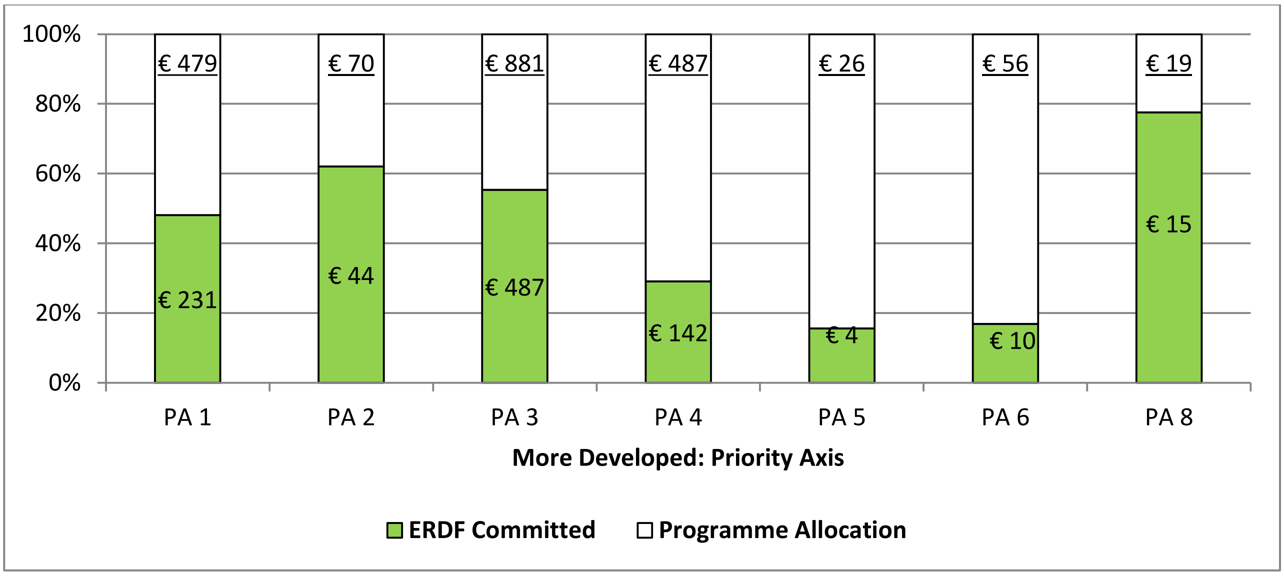
8. As previously reported, the less developed region is making good progress in contracting funds. The chart shows seven of the eight priority axes over 50% contracted. The exception is priority axis (PA) 5 which has contracted limited funds. The issue with contracting in this priority is not unique 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 against contracting targets. The chart shows 3 priority axes that are close to 50% contracted - PA1, PA2, and PA3. There is 1 priority axis (PA8) fully contracted. PA4, PA5 and PA6 are around 20 - 25 % contracted. The low overall contract rating impacts on the ability to achieve the performance expenditure and output targets.

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



10. The chart shows that PA 2 and 3 have exceeded 50% funds contracted, with PA1 close to 50% contracted. PA8 is now nearly 80% contracted. PA4 stands at 29% with PA6 at around 18%. PA5 has now contracted 15% of funds. The low overall contracting rates impact on the ability to achieve the 2018 performance framework targets.

N+3 Decommitment Rule

11. The European Commission (EC) 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 Operational Programme (OP) was approved in 2015, therefore the budget stated in our OP for this year has to be defrayed by the applicant as eligible expenditure and submitted in a payment application to the EC 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 below shows the N+3 target at OP 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 EC.

14. Four payment applications to the EC, totalling €166m, have now been made by the certifying authority. This figure is lower than previously reported due to the payment application figure being overstated. A further payment application is scheduled for May.

15. 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 December 2017	€ 4	€ 66	€ 96	€ 166
Current gap (€m)	€ 68	€ 103	€ 236	€ 407
MA level :Total eligible cost paid, per category of region, at programme level intervention rate (80%, 60%,50%) - @ 0.9 ER	€ 43	€ 46	€ 106	€ 197

16. The row directly above ('MA level: Total eligible cost paid…') shows the value of claims paid by the MA which were not yet submitted (as at 31 March) to the EC for reimbursement by the certifying authority.

17. The ‘N+3 Performance’ forecast analysis (see table below) has been amended to reflect assessments from heads of teams and contract managers. It is felt at this stage this analysis would be more accurate than simply relying on forecasts from contracted projects, which may be out of date.

18. A number of scenarios have been modelled with the table below setting out the ‘realistic case’. A key feature of the below scenario is that a second financial instrument draw down from the Northern Powerhouse Investment Fund is expected. Previous forecasts had assumed only one draw down.

19. The analysis suggests that the N+3 2018 target will be met, but that to achieve it expenditure from September 2018 claims will be required to get over the line with expenditure from June claims making a significant contribution.

	N+3 Performance	**Realistic case £m**
A	**Target @0.9 exchange rate**	£515.5m
B	**Gap to N+3**	£210.5m
C	**Actual and Estimated spend + FI drawdown to June 18**	£492.8m
	Position Post June Quarter Actual and Estimated (A- C)	-£22.8m
D	**Estimated spend + FI drawdown in July to Sept Qtr 18**	£154.2m
E	**plus A125 held**	£24.8m
	Estimate Outturn N+3 (A-C-D+E)	£106.6m

Progress against Performance Framework Expenditure Targets and Outputs

20. 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 EC deems the individual target to have been met when 85% or above has been achieved.

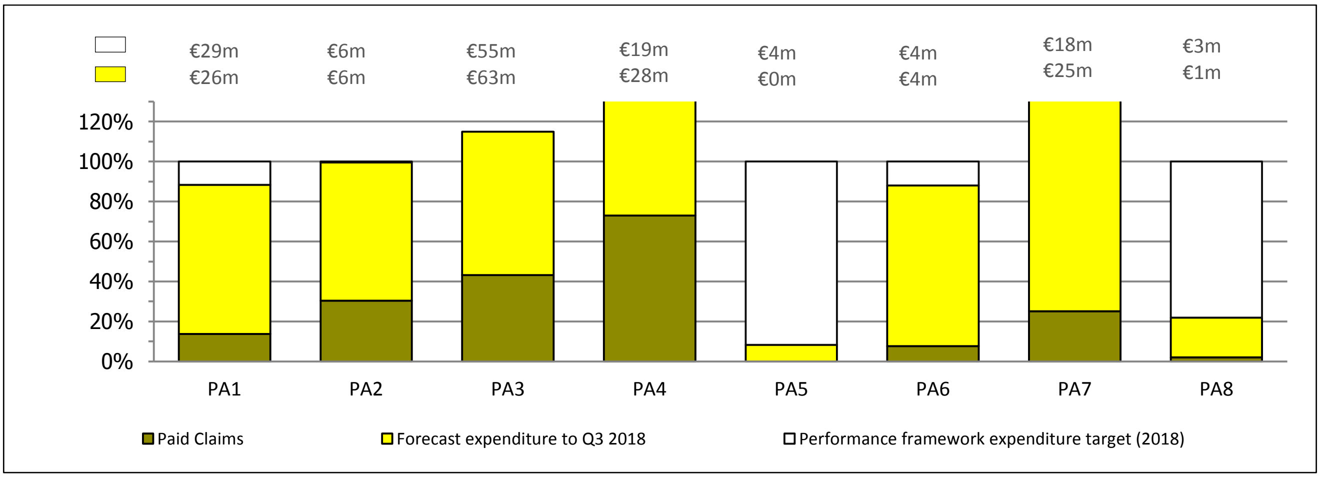
21. The forecast expenditure from contracted projects has been reduced by 30% for all projects except financial instruments.

22. The forecast outputs from contracted projects have been reduced by 20% for all projects.

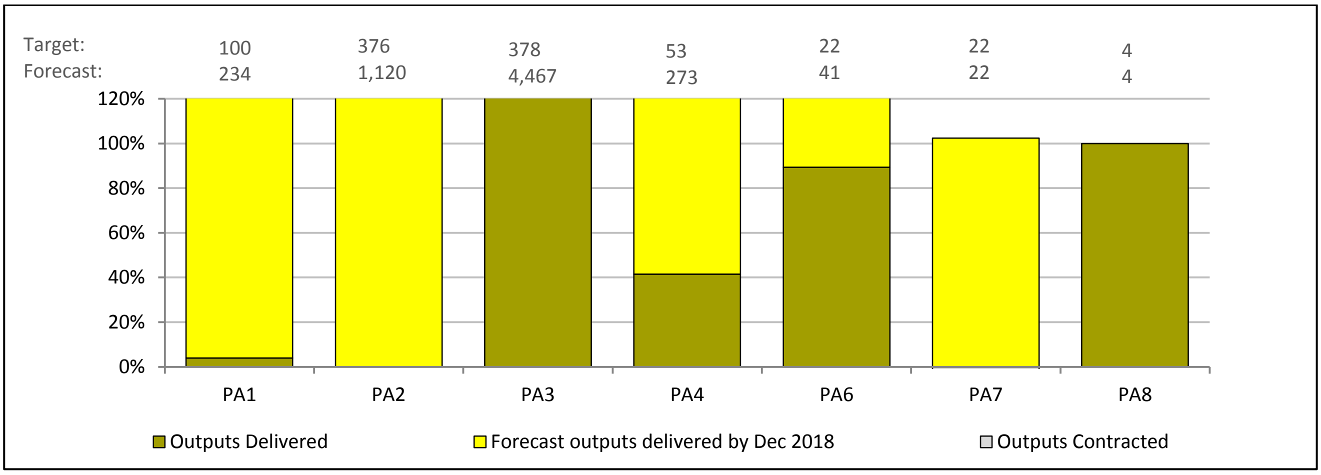
23. The reductions are based on anecdotal evidence from the 2007-2013 ERDF programme for expenditure and output slippage rates.

Less developed region:

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



Forecast performance framework <u>outputs</u> from contracted projects (less 20% all projects) against 2018 targets including outputs claimed

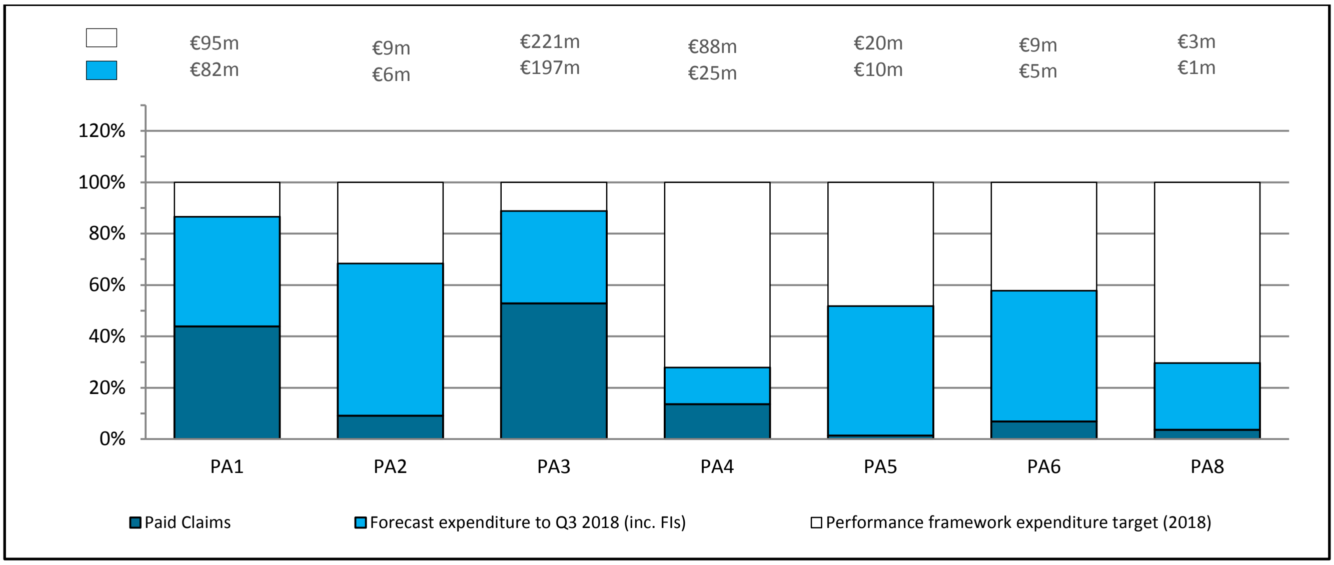


Commentary - Less Developed region

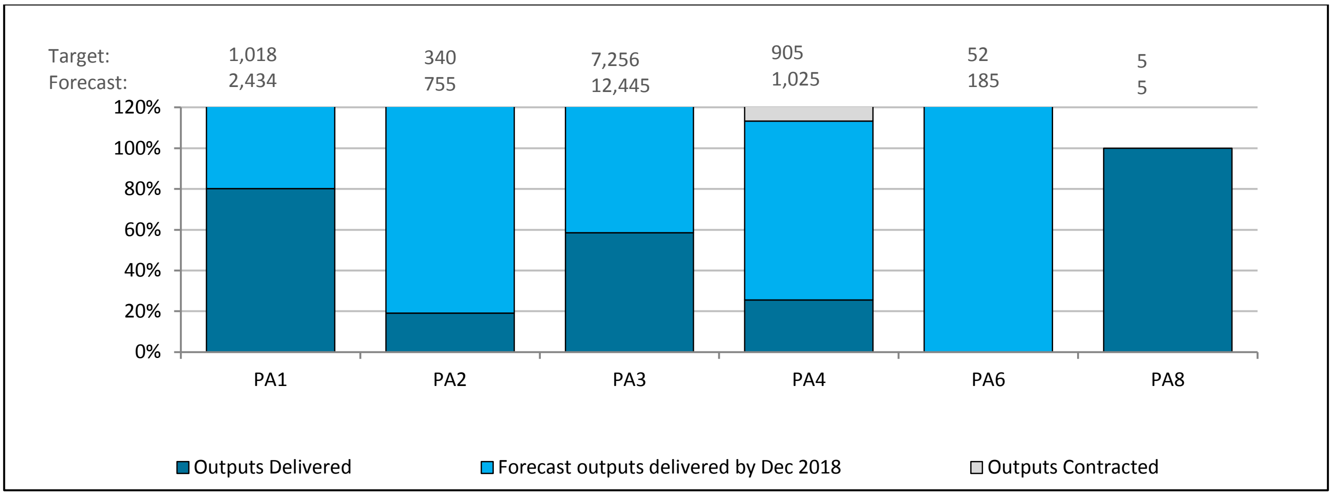
- PA1, PA2, PA3, PA4 and PA7 are forecasting to achieve the performance framework spend and output targets. However claims paid and actual outputs achieved to date need to pick up across the region.
- PA3 and PA8 have met the performance framework expenditure output target.
- PA6 needs close monitoring 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 <u>expenditure</u> from contracted projects (less 30% for non FIs) against 2018 targets including claims paid (€m)



Forecast performance framework <u>outputs</u> from contracted projects (less 20% all projects) against 2018 targets including outputs claimed

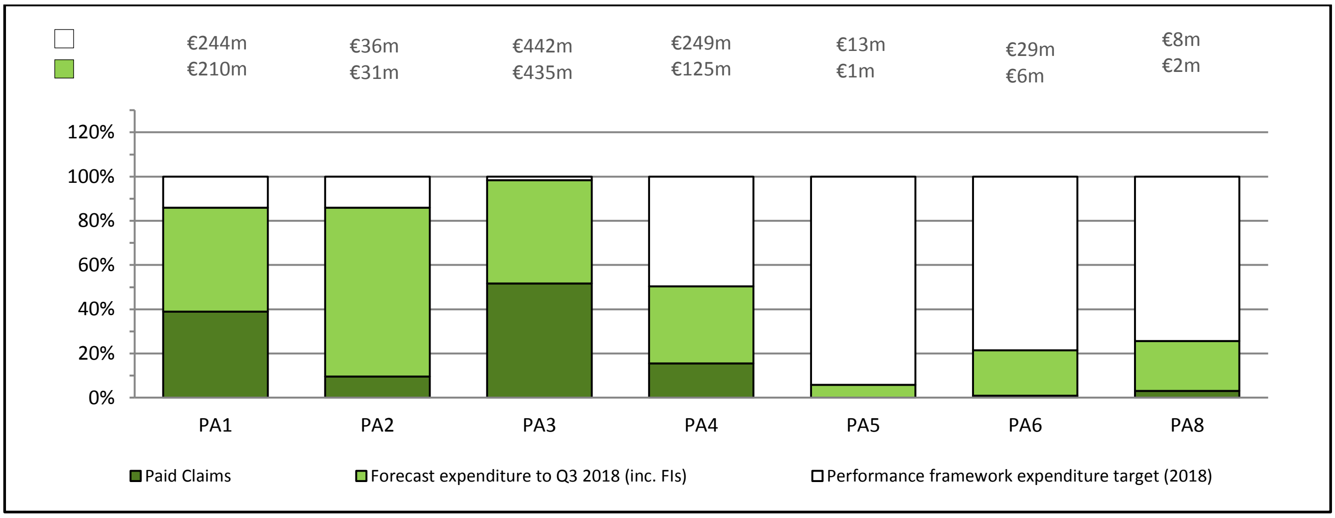


Commentary - Transition regions

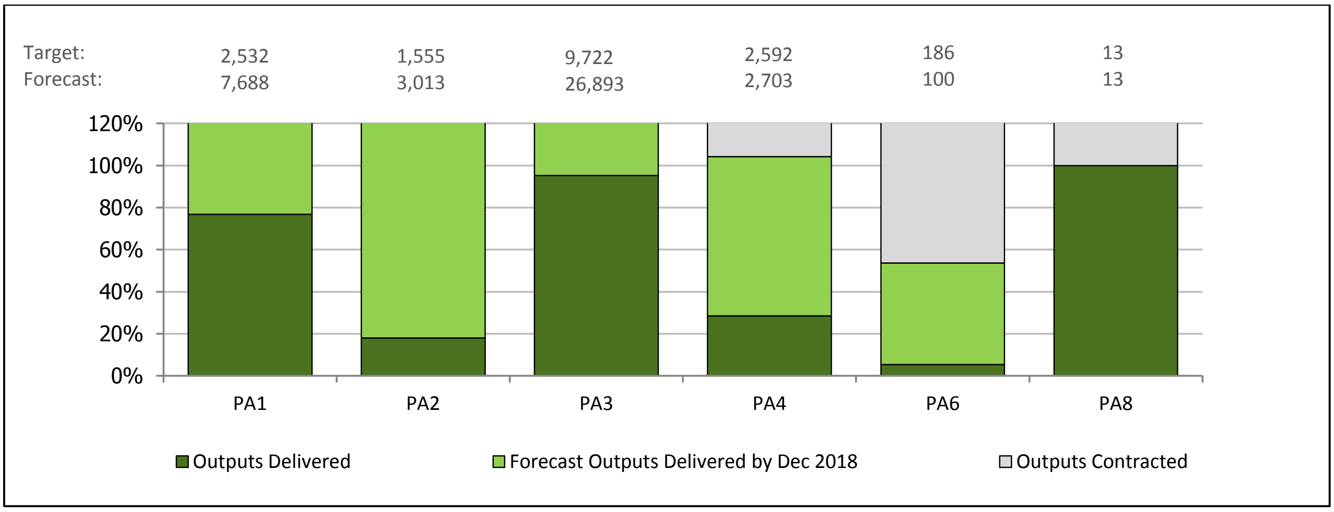
- The transition regions are forecasting to achieve PA1 and PA3 performance framework expenditure and output targets.
- Claims paid need to improve for most priority axes
- PA4 & PA5, PA6 and PA8 will not meet the performance framework expenditure targets. It's a similar picture for outputs under PA4 and PA6.

More developed regions:

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



Forecast performance framework <u>outputs</u> from contracted projects (less 20% all projects) against 2018 targets including outputs claimed



Commentary - More developed regions

- For more developed regions PA1and PA3 are forecasting to achieve the 2018 performance framework targets. This looks realistic when referenced against expenditure and outputs progress -the PA3 outputs target has been met and exceeded during the first quarter of 2018.
- PA2 needs close monitoring to improve the outputs achieved and claims paid. Achievement of the targets is looking increasing at risk despite the forecasts.
- PA5 (expenditure), PA6 & PA8 (expenditure) will not meet the performance framework targets

Programme call schedule

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

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

Financial Instruments

26. To 31st March 2018, the programme has five financial instruments (FIs) contracted for £369.4m ERDF. Three of these made their first drawdown of funds in Spring 2017, one these is likely to make its second drawdown in Quarter 2 2018. The remaining two funds, are expected to make their first drawdown in Quarter 2 2018.

27. There are two other financial instruments in an advanced stage of development worth £75m. These remain on track and expect to be contracted and have drawn down their first tranche of funds by Quarter 3 2018.

28. There are six further FIs under development potentially worth up to £60m ERDF, some of which may be in a position to make a drawdown in 2018.

Community-Led Development (CLLD)

29. All 21 ERDF CLLD applications have been approved and funding agreements executed apart from two Greater South East projects, CHART and Tilbury. It is anticipated that the CHART grant funding agreement will be executed during May 2018.

30. Issuing the Tilbury Funding Agreement was held up due to DWP value for money issues but there has been positive progress.

31. In terms of Priority expenditure performance, delays in appraisal and DWP approvals in areas seeking both ERDF and ESF led to the majority of CLLD contracts not being executed until late 2017/early 2018.

32. As a result PA8 CLLD will not meet its 2018 Performance Framework expenditure targets by Category of Region. Nor will LEP 2018 N+3 allocation targets for PA8 be met.

33. In addition, CLLD has a 3-6 month lead in time for grant recipients to establish what are effectively 21 mini-programmes, including recruitment of local teams, organising and training Local Action Groups (LAGs), establishing grant award processes, developing and issuing calls, assessing applications and issuing funding agreements with grant award projects. Some CLLDs are finding this phase challenging which is resulting in significant forecast slippage against grant funding agreement profiles.

34. The CLLD Steering group which includes DWP is due to meet during May 2018 to discuss CLLD delivery in this challenging environment. This discussion will be informed by a review of LAG call activity/planning, and a review of grant award profiles in funding agreements (the ‘pots’ of grant to be distributed to local projects who deliver the interventions) to establish robust expenditure forecasts for 2018 and 2019.

35. The CLLD territorial instrument has a strong policy and learning dimension. As well as focusing on performance and delivery of the OP, the group is looking at how the network can capture policy aspects of CLLD implementation to inform policy and future funding discussions and enable the national CLLD network to share good practice and learning from local interventions.

Compliance

36. The EC requires an annual schedule of first level compliance checks to be undertaken by the 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 EC whilst reducing the impact of irregularities on the MA error rate.

37. Delivery of the 2018 schedule commenced in February; ongoing work resolving outstanding actions from 2017 continues in parallel.

Visits Undertaken (2016 OTSV Schedule)	Value of claims selected for testing	Amount Tested	At Risk	At Risk %	Confirmed Irregularities
142	£ 32,477,128	£ 22,678,584	£ 1,973,904	6.08%	£0

Visits Undertaken (2017 OTSV Schedule)	Value of claims selected	Amount Tested	At Risk £	At Risk %	Confirmed Irregularities
178	£ 92,741,720	£ 56,456,804	£ 16,518,467	17.89%	£68,528

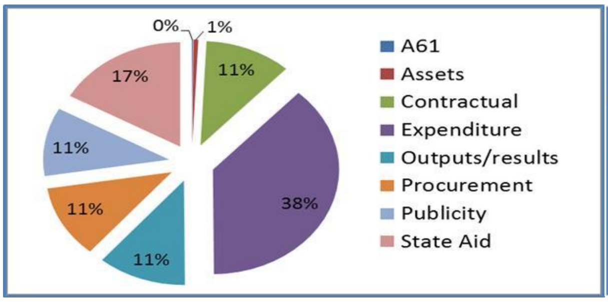
Visits Undertaken (2018 OTSV Schedule)	Value of claims selected	Amount Tested	At Risk £	At Risk %	Confirmed Irregularities
25	£ 9,973,552	£ 3,716,801	£284	0.003%	£276

Progress on OTSV visit actions to date (all years)

Number of actions raised	Number of actions closed	Actions open	Actions closed after 3 month target
792	689	103	144

38. 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.

39. Actions to date broken down by category:



Category	Total to date	Trend
A61	1	↔
Assets	5	↑
Contractual	88	↑
Expenditure	301	↓
Outputs and results	90	↓
Procurement	89	↑
Publicity	84	↑
State Aid	134	↑
	792	

Cross Cutting Themes

Sustainability

40. The 2014-20 programme provides a good level of sustainability through direct delivery in priority axes, 4, 5, 6 & 7. The previous programme (2007-2013) tended to focus sustainability actions on requesting that delivery bodies provide copies of their environmental policies and green travel plans etc. This approach was considered to have a limited impact on changing behaviour, as many of the plans and policies would not be followed through in the delivery.

41. In reviewing the approach for the 2014-2020 programme, the focus has been to embed the sustainability cross cutting theme at the beneficiary level, where the biggest impact can be achieved. Priority 3 is where the programme will have most beneficiaries and therefore activity has been focussed on embedding sustainability considerations within the business process.

42. Working with the Priority 3 leads, the call template has been strengthened to incorporate resource efficiency into the business support offer to SMEs as part of the business diagnostic offer. This can vary from sign posting SMEs to resource efficiency projects in the LEP areas or through the resources available via WRAP (Waste Resource Action Programme). The aim is to ensure that we are growing business in a sustainable way, maximising profitability by minimising waste and energy use.

43. For capital projects the OP details the need to achieve either BREEAM or CEEQUAL standards and this is considered during assessment and appraisal. The programme has a number of capital projects such as new build and retrofitting commercial space where these standards can be applied.

44. In other priority axes such as PA 5 & 6 the disparate nature of the works has meant that it has been difficult to apply the CEEQUAL standard. It is however the experience that due to their nature projects brought forward under these priorities demonstrate high levels of sustainability.

45. In addition, PA 5 & 6 projects including the Environment Agency as a delivery partner providing match funding are also subject to the Environment Agency's appraisal process which ensures projects are delivering a high standard of sustainability.

Equality and Diversity

46. Delivery against the Equality and Diversity Cross Cutting Theme has been informed through collaborative working with colleagues in DWP and the ESIF Compliance team.

47. This update reports progress against the ten objectives for delivering equality principles agreed with the Operational Policy and Assurance Group (OPAG) in May 2016. For ease of reference these objectives are set out below:

Objectives for delivering the Equality Principles	
1	Setting up an Equalities sub-committee of the Growth Programme Board and embedding equalities considerations in the Terms of Reference of Local ESI Funds Committees
2	The preparation of programme-level equal opportunities and gender equality mainstreaming plans in consultation with equalities sub-committee
3	Building appropriate equality criteria into the investment application process
4	Using appraisal processes to check the extent to which equality is applied at project level, including for capital projects in relation to their accessibility
5	Using investment management processes, progress reporting, monitoring visits and evaluation to monitor equality progress at project level
6	Giving implementation staff appropriate equality training, with advice and guidance obtained where necessary from equality bodies or experts
7	Providing equality guidance to projects, including lessons learnt from other projects
8	Promoting equality to applicants by awareness-raising and signposting SMEs and support providers to equality advice
9	Monitoring and evaluating the equality impacts of the Programme, based primarily around the production of best practice case studies
10	The equalities sub-committee reviewing progress and monitoring and evaluating the equality impacts of the Programme on a regular basis and reporting progress to the Growth Programme Board

48. The investment process was reviewed and it was agreed with OPAG that appropriate equality criteria are in place [point 3] to assess E&D within the application process. The Equalities sub-committee has also been established [point 1].

49. The Mainstreaming Plan has been developed in conjunction with DWP and the Equalities Sub-Committee [point 2], and the final draft for publication will go to the National Sub-Committee during May 2018. The plan identifies training principles which has led to the delivery of a training course for ERDF Compliance Team members in January 2018 [point 6] to assist them in promoting equality and gathering case study material from applicants.

50. An Equalities and Diversity Lead has been appointed within the ESIF Compliance team. This appointment, coupled with the development of a monitoring system of project level indicators provides the focus and tools to collect theme data in a way which is consistent. The approach taken enables comparisons to be made across themes and geographical areas utilising lessons learnt [points 7&8] from other projects.

51. This national lead role, in conjunction with the Growth Delivery Team Network has helped ensure that the appraisal process can check the extent to which equality is applied at project level [point 4]. Through the investment management process [point 5] the theme can be tested in progress reporting, monitoring and evaluation by the 'hooks' put in place at appraisal that can be substantiated through best practice case studies [point 9].

52. These best practice case studies can be reported to the Equalities sub-committee to review progress of equality impacts and ultimately to the Growth Programme Board [point 10].

53. Reporting on the Priority Axis 8: Promoting Social Inclusion and Combating Poverty and Anti-Discrimination performance expenditure output targets and Community-Led Development (CLLD) show that the take up and demand are there and are being delivered.