



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

Growth Programme for England

ESI Funds Growth Programme Board

ERDF and ESF Reserve Funds in the England ESI Funds Growth Programme

Purpose:

To update the Growth Programme Board (GPB) on the development of the ERDF and ESF Reserve Funds.

Recommendations:

The GPB to note progress to date and provide any observations.

Introduction

1. As set out at previous GPB meetings the Managing Authorities (MAs) for ERDF and ESF in England, MHCLG and DWP, Reserve Funds are being established for ERDF and ESF in order to:
 - Invest the full value of the programme to maximise local growth, employment, education and social inclusion opportunities and ensure that 2023 performance framework expenditure and N+3 targets are met; and
 - In realising the full value of the programme ensure that any over or under spend arising from FOREX fluctuations is managed, to reflect the need to maximise available funding and minimise the financial risk that is carried by the respective MA's Department.
2. The short-term action to meet these objectives was to uprate the value of LEP area notional allocations. In the medium term this will be complemented by ERDF and ESF Reserve Funds, which will be introduced to support the full use of available funding and manage impacts of a fluctuating FOREX rate. Each programme will set a date from which the Reserve Funds will be implemented. This will reflect respective programme positions and allow for LEP areas to identify the extent to which existing notional allocations can be committed. The Reserve Funds for ERDF and ESF will:
 - Provide a mechanism for redistributing any shortfalls in LEP area commitments ensuring the maximum value of the programme can be realised; and

- Enable the Managing Authorities (MAs) to make financial commitments in line with the accounting and financial controls of each Department and manage down the financial risk caused by a fluctuating FOREX rate.
3. The Reserve Funds for ERDF and ESF will still be subject to the objectives, targets and spending plans of respective Operational Programmes, including funding envelopes at Category of Region by Priority Axis and for ESF at Investment Priority (IP) levels.
 4. As discussed at the previous meeting, whilst the MAs will align Reserve Funds arrangements as far as possible, there will be some differences to the ways in which they operate to reflect the specific delivery models of ERDF and ESF. They will however operate on the basis of the following common principles:
 - Be introduced at the latest point that is necessary to commit all available funding;
 - Ensure Reserve Funds deliver Operational Programme and local priorities;
 - Be managed in an open and transparent way;
 - Minimize the amount of changes to business process; and
 - Look to use existing governance mechanisms where possible.

Progress Update

5. Both MAs continue to work on developing transparent and clear processes setting out how funds from the Reserve Funds can be applied for and the process each MA will use to consider any applications for funding. The latest developments were discussed at the Performance and Dispute Resolution sub-committee meeting on the 15th November.
6. ESF update:
 - Dr Catherine Blair's letter of 14th September to LEP Area ESIF Sub-Committee Chairs confirmed the increase in notional LEP allocations following the ESF Programme uprating. The letter also explained that LEP areas will be asked to confirm their ability and plans to commit funds. The timescale for this is not finalised, but the deadline is likely to be in the latter half of 2019. At that point (or sooner if LEP areas indicate to us that they are unable to commit additional funds in a particular area) we will bring together uncommitted funds to form a Reserve Fund. In further developing the ESF Reserve Fund the following considerations are being given:
 - The need for a transparent prioritisation mechanism to inform decisions regarding release of funds. The current assumption is that this will include deliverability based on previous performance and fit with policy priorities;
 - Aim to minimise potential risk of committing funds too early (anticipate this will be managed through a published and timetabled cyclical approach);

- Role of ESIF sub-committees – to reflect previous GPB steers, in the case of local Call proposals, existing processes and governance arrangements will apply, including the advisory role of the ESIF sub-committee;
- In addition, we recognise the potential for future needs to require a coordinated response across the country, which the Reserve Fund could be used to support. This would require a separate mechanism to that used for local Call proposals (perhaps similar to that used previously for national Technical Assistance Calls). We will continue to develop our thinking on this, including how the need for a national Call would be informed/justified and the potential delivery mechanism(s); and
- Proposals will be presented to the February meeting of the Performance and Dispute Resolution sub-committee.

7. ERDF update:

- Subject to Ministerial sign off, final business as usual calls, including in non-SUD IB areas in spring 2019. The exception being any SUD calls or calls in non-SUD IB areas already agreed and closing before Autumn 2019.
- Reserve Fund calls open from Autumn 2019 looking to bring forward activities in response to uncommitted ERDF in line with the OP and agreed priorities.
- Initial thinking is that these will be national rolling calls by priority axis; there will not be separate calls by CoR (although there will be CoR funding envelopes within the calls). The PDR/ GPB will advise on the content of these calls.
- Although broad in nature the Reserve Fund calls will encourage pan-LEP area projects and investments in:
 - a. programme level opportunities/initiatives e.g. support for Industrial Strategy Grand Challenges;
 - b. responses to emerging local economic shocks; and
 - c. innovative/pilot activity to inform future investment.
- Initial Reserve Fund financial envelopes at CoR level and by priority axis will be based on unallocated ERDF (taking account of forex considerations) following the outcome of Spring 2019 call (OP budget minus contracts and selected outlines). Budget 'topped up' by attrition from pipeline. OP modification in 2020 to ensure programme funding envelopes align with demand.
- In PAs where there is minimal funding left a judgement nearer the time will need to be made whether a call is justified.
- Where demand for a call outstrips funding there will need to be a prioritisation mechanism; the mechanism will be signed off by the PDR/ GPB.
- Assessment of applications will be led by GDT based on predominant location of activity.
- Advice sought from local ESI Funds committees for the areas predominately covered by the projects – VFM and Strategic Fit.
- Priority Axis level moderation across GDTs to ensure consistency.

- Bulk of contracting 2020/early-2021 and delivery to end 2023 – subject to agreements reached with EU and their impact on closure.

8. The PDR sub-committee welcomed progress and advised that the following questions need to be considered as part of the on-going development work:

- Scoping available sources of match funding (including potential for the Reserve Funds to bring match to the table that it is proving challenging to find locally);
- what the decision-making process is including the role of local partners in line with current roles and responsibilities of MAs and stakeholders; and
- the role of IBs and SUDs.

Next Steps

9. MHCLG recognise the need to provide certainty to LEP areas on how the Reserve Fund broadly will work and in particular the finalised timings for the last locally developed calls. MAs plan to do this in early 2019.
10. DWP will also be continuing their engagement with local partners to confirm their ability and plans to commit funds.
11. Both MAs will continue to work on the design and detail of ERDF and ESF Reserve Funds and update with the Performance and Dispute Resolution sub-committee at the next meeting on the 14th February 2019.

David Morrall, EPLGD, MHCLG
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11th December 2018