

England ERDF Reserve Fund

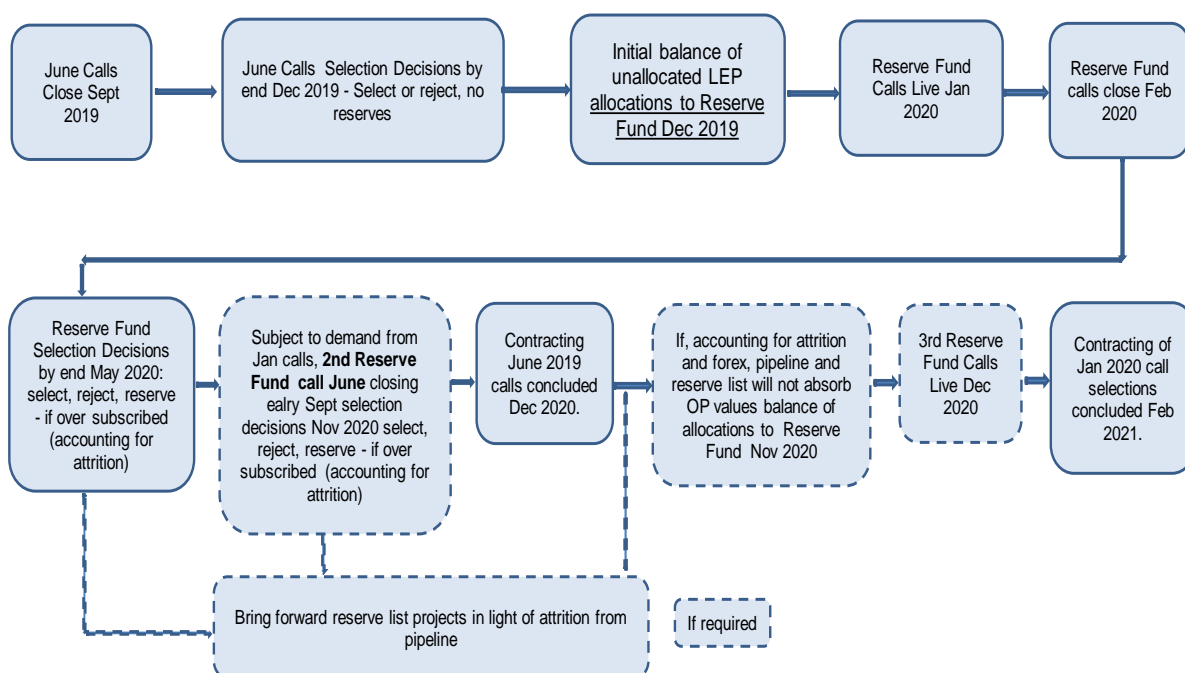
Annex **BC** - Prioritisation of applications.

1. **Purpose:** to support discussion and agreement of how project proposals submitted under the reserve fund will be prioritised by PA/CoR in the event that demand for funding exceeds the funding available.

This paper does not consider the scale of the reserve fund. Budgets will take account of *inter alia* FOREX risk, pipeline attrition, and flexibilities through programme modifications.

2. Assumptions:

- We exit the EU with a deal ¹ and **the reserve fund is bound by ERDF requirements**. Funding managed within priority axis (PA) and category of region (CoR) allocations, subject to demand at PA/CoR level prioritisation may be unnecessary in every PA in every CoR.
- Reserve fund **operates on the basis of England level calls reflecting PA and CoR allocations**². One, two or three rounds of calls³.
- **Launches January 2020** flexibility for further calls summer 2020 in the light of demand from round 1 and late 2020⁴:



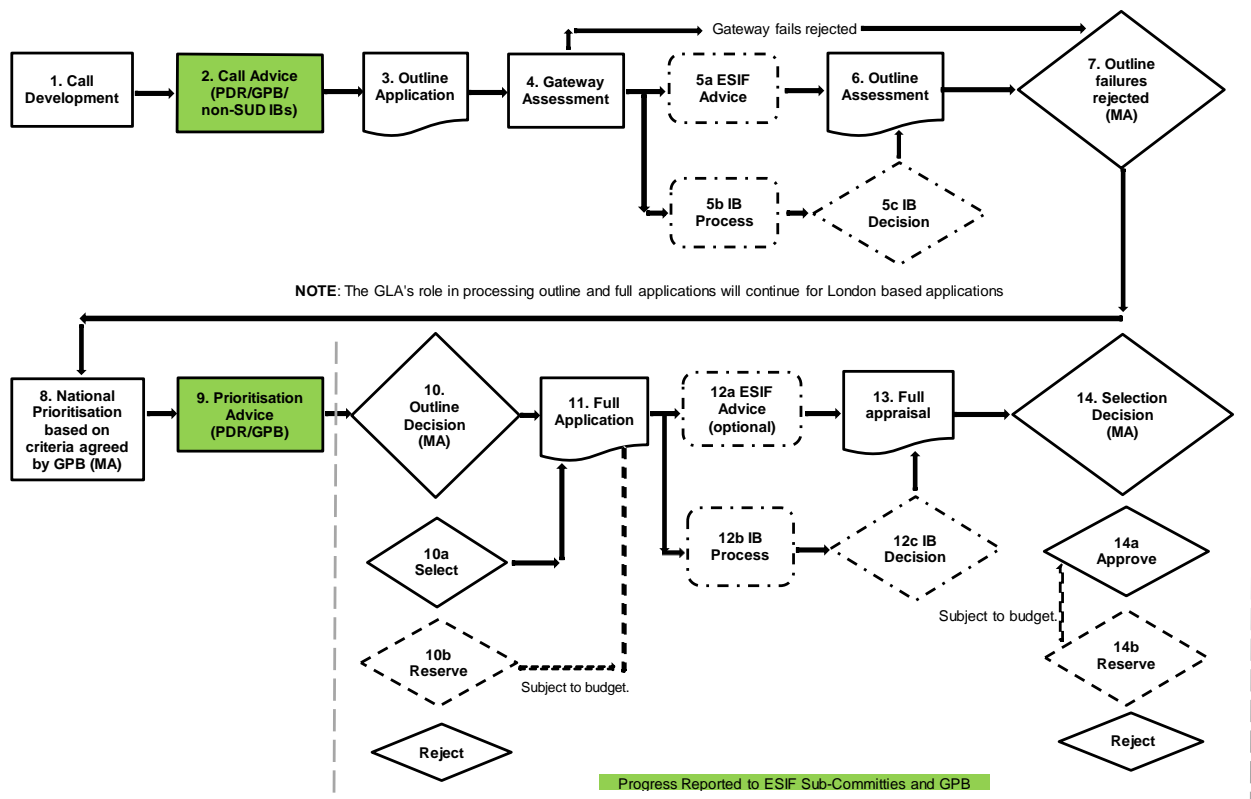
¹ A no deal reserve fund would operate in either exactly the same way or in a broadly similar way if within a domestic rather than EU framework.

² Calls could also operate on a pan-LEP basis (e.g. NPH, ME), however this does not alter the need to consider how applications would be prioritised.

³ Further detail on the nature of calls is set out in Annex D.

⁴ After December 2020 timings are likely to make further calls for new activity impractical.

- **No link to residual local allocations.** The amount ultimately spent in LEP areas will be determined by the quality of project proposals and OP level allocations. Prioritisation occurs as a national (or call level) exercise taking account of category of region.
- The fixed basis of CoR allocations means that **funds cannot move from more disadvantaged “transition” areas to the more prosperous “more developed” regions.** On this basis it is unnecessary to add an additional geographic factor into a prioritisation process.
- **Delivery via existing two stage business process.**
- **Formal prioritisation will be undertaken at the outline assessment stage.** This reflects the project development and appraisal process, which results in projects reaching the point of approval at different times. To maintain commitment and spend we cannot afford to move at the speed of the slowest. If the available budget reduces e.g. due to FOREX changes decisions on pipeline management will be required (as it would if we continued the local call approach) this is not considered in this paper.
- **Projects to be complete at end Q2 2023.** Unless new projects spend at risk from date of selection (May 2020) three years delivery will not be possible. New projects, under a second round of reserve fund calls likely to be restricted to around two years delivery.
- **Prioritisation occurs post assessment it is not a substitute for the assessment and or appraisal process.** Only those projects which meet the agreed selection criteria would be considered within a prioritisation exercise



1. Potential Approach

3.1 Calls for projects.

Call specifications form a crucial part of the prioritisation process, particularly in respect of strategic fit. Call specifications will set priorities for investment such as:

- Applications that are EITHER Pan-LEP area, on the basis of existing pan-regional structures, such as the Northern Powerhouse and Midlands Engine, or other pan-LEP area propositions OR community-level initiatives against criteria that will be developed;
- Clear delivery of the Industrial Strategy and (where relevant) Grand Challenges AND multi-Foundation based;
- Innovation, either in substance of activity or mode of service delivery; and
- Links to domestic growth initiatives

Facilitation of the above will be driven locally by Relationship Managers.

Projects will be tested against priorities identified in the call specification as part of the assessment of strategic fit. These priorities would be factored into scoring – see below.

3.2 ERDF Selection Criteria.

In accordance with article 110 of the CPR the PMC (GPB) agreed [criteria for the selection of operations](#). These drive the core elements of the ERDF application and approval process. Unless amended by the GPB these criteria must be applied to all operations and projects cannot be assessed against any other criteria. Projects that fail to satisfy these requirements would fail the appraisal process, as they would currently and would not be considered for prioritisation.

The selection criteria include the areas that form the basis of a prioritisation exercise in this context *inter alia*:

- **Strategic fit:** is the proposed operation in line with the programme and the priorities set out in the relevant call, including domestic policy priorities - informed by ESIF committee advice and IB decision making. This is a broad criterion driven by the OP and refined in the call, we are free to set whatever strategic fit sub-criteria we wish e.g. multi LEP delivery.
- **Value for money:** in terms of cost, contribution to programme targets and impact - informed by ESIF committee and IB advice. Provides scope to consider level and unit cost of outputs as well as impact.
- **Deliverability:** risk, can the project be delivered within the requirements of the programme - informed by ESIF committee and IB advice.

The selection criteria also include areas which are primarily pass or fail criteria or areas which can be managed post approval:

- Management and control
- Compliance – procurement, State Aid, publicity requirements, eligibility rules
- Cross cutting themes

There is little value in seeking to prioritise on the basis of these latter criteria e.g. a project cannot be more compliant than another, whereas a project can demonstrate stronger strategic fit, value for money and or lower delivery risk than another.

Proposal: prioritisation in the reserve fund is undertaken using the existing selection **criteria of strategic fit, value for money and deliverability.**

3.3 Scoring.

DWP has a [scoring system](#) that is applied during the appraisal of all ESF applications. The ERDF MA chose not to adopt scoring.

Scoring provides a relatively objective way of prioritising proposals, however determining the scores is a subjective exercise. Different assessors will arrive at different views on the same information. Scoring requires *ex-ante* development of guidance to inform the application of scores and *ex-post* moderation to ensure consistency.

To be effective a scoring system requires a sufficient range to achieve differentiation. In practice the DWP process operates on scores of zero (fails the criteria), one (meets minimum requirement) or two (exceeds the minimum requirement).⁵ Given the breadth and complexity of the ERDF programme a broader range would be required; clearly a project can exceed the minimum by a greater or lesser degree than another.

Scoring criteria may also be weighted to reflect priorities. Under the reserve fund deliverability will be a key consideration.

Scoring is not a panacea for the complexities associated with the value judgments necessary to prioritise ERDF proposals, however it does provide a transparent approach in which it is easier to defend contentious decisions.

Proposals: The reserve fund prioritisation process includes the flexibility to use scoring where necessary. Ratings based on a scale of one⁶ to five based on how strongly the proposals perform against the criteria: strategic fit, value for money and deliverability.

Further work will be necessary to establish benchmarks/expectations within the framework i.e. a project that scores 5 for strategic fit would look like....

3.4 Proposed Process.

The process will reflect the Multi-Criteria Decision Analysis (MCDA) model's basic steps:

1. Define the objective(s) – In our case prioritise projects where demand exceed value available funding;
2. Define set criteria for scoring – these must reflect the programme selection criteria and call specification;
3. Define the options – In our case projects as defined in the outline application;
4. Agree the importance of the various criteria and assign corresponding weights to them;
5. Evaluate the options with respect to the criteria;
6. Combine or synthesize the multiple single-criteria scores into a single aggregate multi-criteria value;
7. Step-back, evaluate the results, consider other aspects and make a decision.

The process would operate on the basis of:

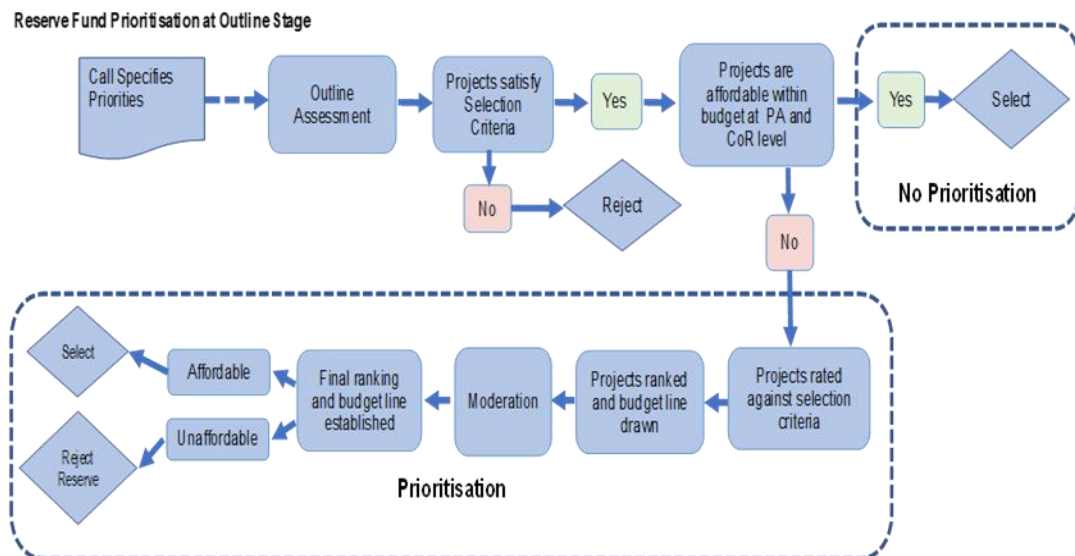
1. Calls issued at PA level, including all CoR⁷.
2. Outline applications allocated to GDTs on the basis of location or other agreed distribution – reflecting capacity/demand.

⁵ Although the scoring ranges from zero to five the only scores used are zero, three and five, making it effectively zero one and two.

⁶ As only projects that meet the minimum requirement (i.e. satisfactory at appraisal/assessment) would be part of a prioritisation exercise a zero option is not appropriate.

⁷ Subject to clarification of the involvement of the less developed category of region

3. Applications assessed using standard assessment materials.
4. Projects that fail to meet selection criteria are rejected.
5. If the value of projects that meet the selection criteria and call specification is affordable within the budget available at PA and CoR level there would be no prioritisation and projects would proceed to full application



6. If the value of projects at PA/CoR level exceeds the available budget projects would be prioritised.
7. A small panel of experienced appraisers and the respective PA leads would review the projects and establish ratings against the selection criteria of strategic fit, VFM and deliverability. This would draw on rather than repeat the GDT assessment.
8. Creating a panel will allow for a more consistent approach to the alternative; having all projects rated as part of the GDT assessment (possibly needlessly), which would inevitably generate inconsistency requiring moderation by a similar panel.
9. An initial ranked list would be established for each PA and CoR showing the impact of the budget – drawing a line above which projects are affordable.
10. A moderation panel of MA staff (including where appropriate colleagues drawn from other teams within MHCLG or other government departments with relevant policy responsibilities) would review the ranked list, moderate ratings and adjust the rankings. This may include recommendations to shift funds between PAs via modification to maximise impact.
11. IBs, GLA, PDR and /GPB input informs final prioritisation decision. However the final decision will be taken by the MA.-
12. Projects that are affordable would be formally selected into the programme by the relevant (local) GDT Head and proceed to full application.
13. Projects that are unaffordable would be placed on a reserve list.
14. Projects would be brought forward from the reserve list taking account of the prioritisation exercise and the budget i.e. it may be necessary to bring forward a lower priority project if that is all that can be afforded within the budget.

Jeff McCloud
ERDF Managing Authority
31/07/2019