

ESI Funds Growth Programme Board

ERDF Programme Delivery

Purpose:

This paper provides a progress update to the Board about activity on the ESF Programme.

Recommendations:

That the Growth Programme Board notes the current position and asks members to continue to actively encourage their LEP areas to expedite the design of Calls to draw on the ESF Reserve Fund.

Members are additionally asked to note that this abridged paper contains a high level summary of key issues and performance against key indicators. Further detail on the MA's initial and mid-term responses to the COVID-19 crisis can be found in the accompanying slide decks.

Summary:

(N.B: The position at the last report, with ESF data to 01 February 2020, is shown in brackets for ease of comparison).

The level of ESF commitment at 1st June was £2.304 billion (£2.176 billion), 75.91% (71.7%) against the total allocation

There are 6 live calls on GOV.UK to the value of £6.9 million, with the final closing date currently 30 June. All live calls will remain open until their current closure date and may be extended as required. We have also offered additional support to organisations encountering difficulties developing applications or who require more time to submit them for appraisal.

At the point of drafting this report there are 236 applications in the appraisal pipeline, with a total value of £571 million. Of these, 64 are currently being actively appraised, with a further 16 at various stages of consultation with their ESIF Committees. This makes a total of 80 active applications at different stages in the appraisal process. Granular detail of the appraisal pipeline is provided later in the report. We have corresponded with the applicants on all outstanding appraisals, to determine how COVID-19 might impact on their ability to continue with the iterative appraisal process. Some applicants are yet to respond, but the general response to date is that most applicants are in a position to continue.

Progress towards the 2020 N+3 target is strong with early indications showing that, if performance continued at the current claim rate of 91.94% (ESF only), we would remain on track to receive sufficient value from the Quarter 2 2020 claims to achieve the target. However, COVID-19 will

impact this position. While we cannot yet be clear on the full impact of COVID-19, we anticipate the following risks:

- Claims currently with the Managing Authority (MA) cannot be progressed as we are unable to obtain information from Grant Recipients, for example around Irregularities or evidence for Desk Based Evidence Checks (DBECs) and On the Spot Visits (OTSVs);
- Quarter 1 and Quarter 2 claims that are due May/August will be at reduced value due to slower activity;
- The Quarter 1 and Quarter 2 claims will be paid, due to easements put in place, but may not be available for N+3 purposes as the required evidence won't be available for their inclusion in any Interim Payment Applications (IPAs) to the Commission.

We will update GPB members further when we have more information on the impact of these risks. The Q1 claims received show a slight dip in performance, especially in respect of Direct Bid claims (67%), but this is still within the broad range of previous quarters. However, this does slow the significant performance improvement that had been evident more recently. However, only 2 weeks of Q1 were directly impacted by lockdown and therefore a much more significant impact is expected in the Q2 claims.

As members are aware, and in line with ERDF, we paused publishing any further calls from the Reserve Fund at the point of the COVID-19 crisis hitting. This meant that Call Proposals submitted into March were not able to be progressed. We have continued to discuss priorities for using remaining Programme funds with members of the Performance and Dispute Resolution Sub-Committee and are involved in broader cross-Whitehall discussions regarding economic recovery plans. Stakeholders and local areas who identify a need for support to respond directly to the impacts of COVID-19 are invited to submit Call Proposals for us to consider. A verbal update on the current position of the Reserve Fund will be provided at the GPB meeting on 23 June.

The MA is additionally considering measures to reduce timelines for appraising applications and paying claims by streamlining these two key processes. Further detail appears in the accompanying slide deck.

The MA's recruitment exercise to increase its cadre and strengthen the team has begun. The first tranche of the 62 vacancies was advertised during week commencing 8th June and successful applicants will be placed into areas that have the most urgent business need. A further two phases of recruitment are planned during the summer.

Interim Payment Application (IPA14) was submitted to the European Commission on 6 April 2020 for €79 million (£67 million) total expenditure and **€45.6 million ESF** (EU amount). Payment was received on 21 April, following 10% retention we received €41 million (£35.9 million).

ECPA 15 is currently being prepared, which is the final PA for the year 2019-20. This will be submitted on time, ahead of its July deadline and its current estimated value, subject to checks, is £62M.

ESF Programme Update:

1. All data included in the Programme Update section is as at 1 June 2020, unless indicated otherwise. The exchange rate used throughout the report is 0.89728, unless stated.

Calls and Commitment Update:

2. In order to provide the Board with the latest available information, the Performance Framework data presented has different period end dates for participant and financial elements. Unlike the financial data which is available monthly, the participant data is only available on a quarterly basis. Again, the position at the last report (with ESF data to 01 February 2020), is shown in brackets for comparison purposes:
 - ESF commitment, as of 01 June 2020, was £2.304 billion (£2.176 billion), 75.91% (71.7%) of the total ESF allocation.
 - In Priority Axis 1 and 2 there are 244 (272) Direct Bid projects with commitments totalling £698.5 million (£650.8 million) and 157 MOUs for the National Co-Financing Organisations (CFOs), valued at £1.58 billion (£1.58 billion).
 - There are 40 ESF Funding Agreements for Technical Assistance with a value of £28.6 million.

Update on the Appraisal of Applications:

The following table summarises the Programme Appraisal position as at **09th June 2020**:

Appraisal Caseload – Summary Position			
Row	Type	Current Appraisal Caseload	Value (£m)
A	Unassigned	68	123.0
B	Appraising	64	183.6
C	At ESIF Committee	11	18.5
D	Post ESIF Action	5	11.5
E	Appraising sub-Total (Rows B+C+D)	80	213.6
F	Grand Total Appraisals (Rows A+B+C+D)	148	336.6
G	New Decisions (Made within last 14 days)	1	3.0

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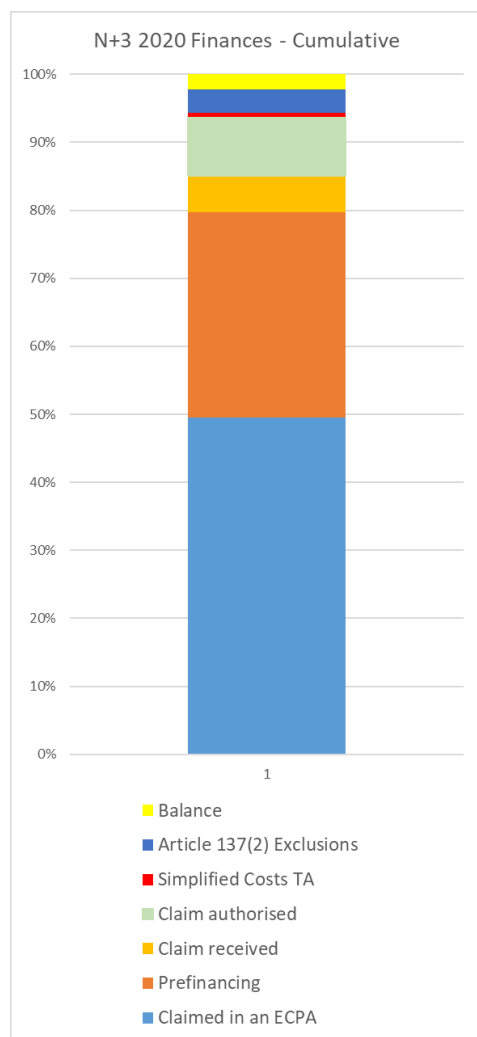
H	Pending Decisions	18	26.2
I	Awaiting Funding Agreement	70	208.3
	Totals (rows F+H+I)	236	571.1

3. The above table summarises the current position with regard to the appraisal of applications and gives a clear illustration of the volumes and values of applications at the different stages in the process. It can be seen that both the volume and value of applications in appraisal has increased slightly since the last report, as several recent Calls attracted high numbers of applications.
4. All applicants with outstanding appraisals have been contacted to determine how COVID-19 might impact on their ability to continue with the iterative appraisal process. Only 11 applicants are yet to respond, all others have confirmed they wish to continue, although a few have requested that their projects commence later than originally envisaged, in 12 months' time.
5. Analysis of the physical time taken from Call closure to the decision on Value for Money (VfM) continues to be actively managed – the VfM decision is the point at which a decision can be issued to the Applicant.
6. In addition to the Gateway/Due Diligence checks, as we advised the Board at the last meeting, a new Preliminary Appraisal Review Questions (PARQ) step has been implemented and its effectiveness is being reviewed for further refinement. This ensures that all necessary documentation is submitted prior to assignment of an appraiser so progress can begin without delay. This provides the following improvements:
 - Applicants are assured their application has been received, as contact is made more quickly;
 - Applicants are better prepared to ensure all documentation is made available to the MA to enable to the appraisal process to begin without delay; and
 - In the event of a rejection due to non-compliance, notification can be issued in a timelier manner.
7. Closer working between Senior Appraisal Managers and MA LEP Leads has continued, improving stakeholder engagement and communication around the appraisal process.

Progress on N+3 Target:

N+3 2020 Finances – Cumulative Performance

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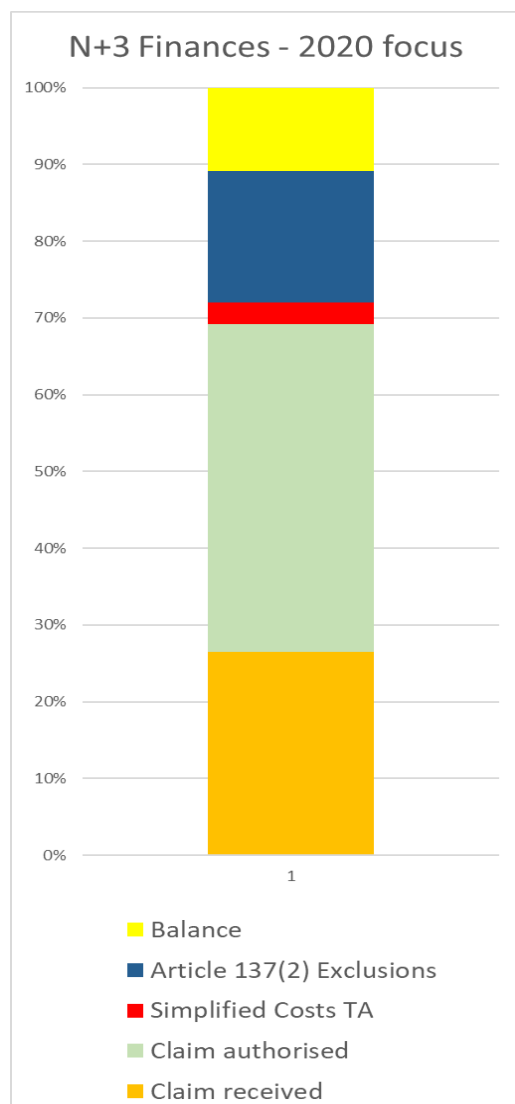


Target	€ 1,897,810,581.00	
Claimed in an ECPA	€ 940,796,342.00	49.57%
Prefinancing	€ 571,354,506.86	30.11%
Claim authorised	€ 164,876,403.57	8.69%
Claim received	€ 102,016,289.04	5.38%
Simplified Costs TA	€ 10,675,707.70	0.56%
Article 137(2) Exclusion	€ 66,199,527.35	3.49%
Balance	€ 41,891,804.48	2.21%

8. The in-year target for 2020 is €385,659,732, the table on page 5 shows this in more detail.
9. Members will note from the data above that at the point of this update being written, the MA is on track to have received sufficient claims to enable us to achieve 98% of the cumulative 2020 N+3 target; subject to those claims passing the necessary checks and therefore being included in payment applications to the EC. However, COVID-19 risks will impact on the financial value of these payments, in particular where there are irregularities or where additional information is required from grant recipients.

N+3 Finances – 2020 Focus

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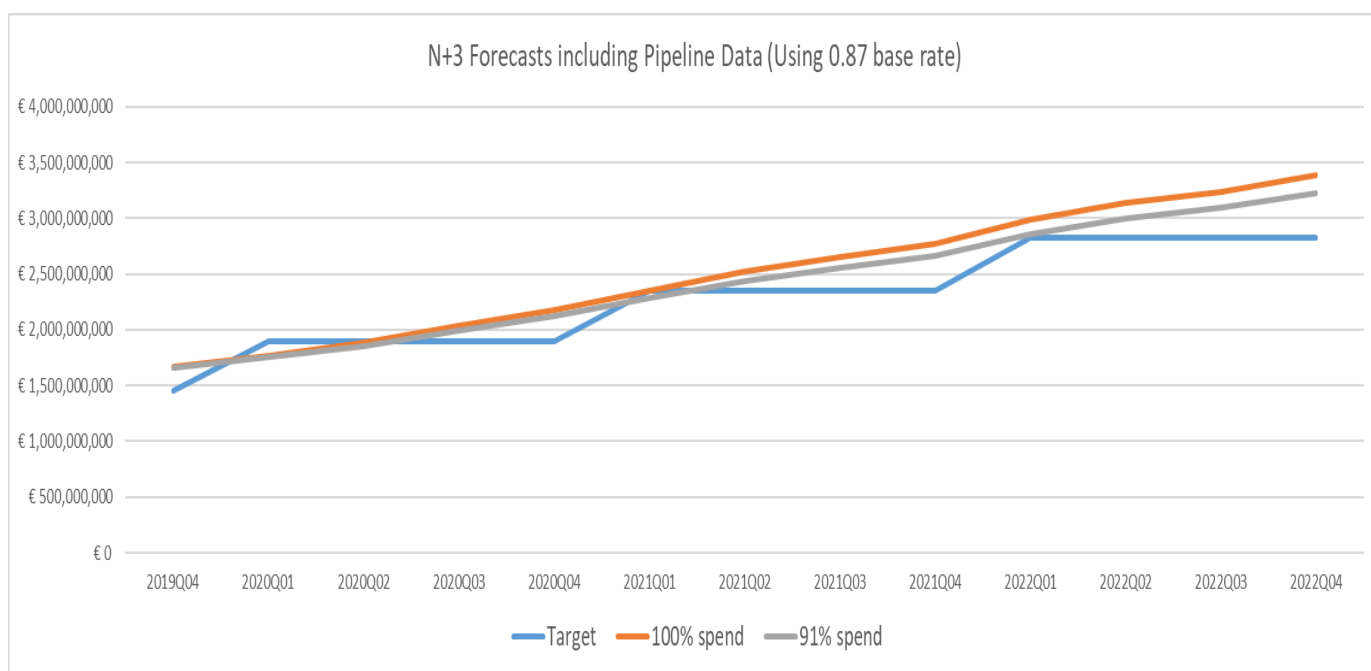
2020	Target	€	385,659,732.00	
	Claim authorised	€	164,876,403.57	42.75%
	Claim received	€	102,016,289.04	26.45%
	Simplified Costs TA	€	10,675,707.70	2.77%
	Article 137(2) Exclusions	€	66,199,527.35	17.17%
	Balance	€	41,891,804.34	10.86%

The key points to note on N+3 2020 are summarised below:

10. 'Claim authorised' and 'Claim received' figures indicate that we remain approximately on target for achievement of the 2020 N+3 target. The remaining €41.9M gap, illustrated in the table above, would ordinarily have been provided by the receipt of Q2 claims by August. However, the committee should note that the COVID-19 risks, set out in the Summary on page 1 of this paper, are expected to severely impact the value of the anticipated claims. Current focus is on prioritising the processing of claims received so that they will be included in the Final European Commission Payment Application of this financial year, in July 2020.

11. The 'Simplified Costs TA' is the method used for claiming 4% of the TA costs back from the EC. We claim 4% of the ECPA value as TA;
12. 'Article 137(2) Exclusions' relates to approximately €66.2 million in claims that have been withheld from the Annual Accounts due to ongoing investigations (largely linked to outstanding issues with Irregularities). These will be included in future ECPAs as the underlying issues are resolved;

N+3 Performance Forecast against profile, including pipeline, to Q4, 2022



13. The MA is keen to monitor the position for forthcoming years so that we can be more proactive in spotting any future degradation in N+3 performance. This will enable us to take preventative, rather than reactive, action to maximise our ability to achieve N+3. The performance forecast for the N+3 target illustrated above shows that we expect to continue to receive sufficient claims to enable us to meet the target going forward, subject to the impact of COVID-19. The table (above) illustrates the forecast for the next three years, taking account of current commitment levels and all known pipeline data and shows the projected N+3 performance at two different claim rates. As can be seen from the legend:
14. The trajectory depicted in orange shows performance at 100% claim rate, which would result in receiving sufficient claims to achieve, for example, the 2020 N+3 target in Quarter 2 of 2020;

15. The trajectory depicted in grey, demonstrates performance at 91%, an average claim rate, which shows that we are on track to receive sufficient claims to also achieve the 2020 N+3 target upon receipt of the Quarter 2 2020 claims.
16. As noted above, the committee should note that the COVID-19 risks set out in the Summary on page 1 are likely to impact the financial value of claims included in the next Interim Payment Application.
17. Members are asked to note that the claim rate will fluctuate with time as well as performance. Specifically, as well as being impacted by other influences, such as exchange rate, the position will vary within a quarter dependent upon which claims have been received, which claims are still outstanding and their relative values.

ESF Claims Performance:

ESF Claim Performance against Profile:

Total (ESF & Match) Expenditure Timeline by Organisation

CLAIMS SUMMARY				
Org Type	Cumulative Profile to Q1 2020	Cumulative Claims	Slippage	Percentage Claimed
Direct-Bid	£716,921,208	£479,011,370	-£237,909,838	66.82%
ESFA	£781,652,860	£866,964,735	£85,311,875	110.91%
DWP	£211,783,138	£198,370,231	-£13,412,907	93.67%
HMPPS	£283,694,293	£278,138,096	-£5,556,197	98.04%
NLCF	£270,171,223	£283,176,187	£13,004,964	104.81%
TOTAL	£2,264,222,722	£2,105,660,618	-£158,562,103	93.00%

Profile correct as of 01/06/20

Claims data extracted from RP1010, run date of 01/06/20

Spend includes both ESF & Match funding

18. The table above shows the performance of both Direct Bids and CFOs, in terms of claims against profile. Members will note that the total percentage claimed figure 93.00% includes both ESF and Match funding and so will differ slightly from that quoted earlier in this paper, which is the claim rate for ESF only (91.94%).

19. Additionally, the CFOs have had more than one exercise to offer extensions and re-profile. This inevitably means that their actual spend to date is closer to profile than that of the Direct Bids. The ESFA overspend position is being addressed and will be recovered in 2020.
20. The CFOs deliver the largest part of the Programme and are currently the strongest performers, in terms of performance against profile, as identified in the table above. Short narrative updates on each CFO are presented below. All CFOs have submitted their Quarter 1 2020 claims as planned, at the end of May. The MA will now work on processing these claims.

The National Lottery Community Fund (NLCF):

21. As detailed in previous reports, NLCF have revised their profiles to extend provision in those areas that sought extensions and re-profiled any underspend to either release unused funds, or extend projects as appropriate. All Project Change Requests (PCRs) have been approved. There were no significant issues identified at either the last Project Management Meeting (PMM) or monthly performance telekits. Some payments remain outstanding from the Quarter 4 claims due to technical issues.

Her Majesty's Probation and Prison Service (HMPPS):

22. There are no PCRs outstanding for HMPPS. There were no significant issues identified at either the last PMM or monthly performance telekits. The Quarter 4 claim was submitted as expected and has already been processed.

DWP:

23. As detailed in previous reports, DWP have revised their profiles to extend provision in those areas that sought extensions and re-profiled any underspend, to either release unused funds or extend projects as appropriate. There were no significant issues identified at either the last PMM or monthly performance telekits. Some payments remain outstanding from the Quarter 4 claims due to technical issues. The migration of revised profiles has not been completed due to technical difficulties on Eclaims. The Managing Authority are working to resolve these with the developer.

24. DWP have published programme statistics covering the period up to November 2019 and this can be found by following this link: <https://www.gov.uk/government/statistics/dwp-cfo-european-social-fund-2014-to-2020-statistics-to-november-2019>

ESFA:

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25. The ESFA have submitted their PCR as notified to LEP areas. Work is underway to assess and appraise these PCRs as a priority. The MA has asked for further evidence to seek assurance that these projects can support the recovery post COVID-19. There were no significant issues identified at either the last PMM or monthly performance telekits. Some payments again remain outstanding from the Quarter 4 claims due to technical issues. Due to limits imposed by the remaining funds within the Reserve Fund, the MA is working with the ESFA to achieve the best possible outcome for all areas before additional funding can be approved through the PCR process.

Direct Bids:

26. As referenced above, the performance against profile of Direct Bids, at 66.82%, is currently performing the least strongly. This performance is broken down further in the table below, which shows how it is made up by CoR and IP:

Total (ESF & Match) Expenditure for Direct Bids by PA and CoR:

CLAIMS SUMMARY (Direct-bid only, ESF & Match)					
Priority Axis	Category of Region	Cumulative Profile to Q1 2020	Cumulative Claims	Slippage	Percentage Claimed
1	Less-Developed	£14,487,276	£6,704,471	-£7,782,805	46.28%
1	Transitional	£43,338,563	£39,937,928	-£3,400,635	92.15%
1	More-Developed	£269,458,129	£147,748,816	-£121,709,312	54.83%
1	YEI	£217,650,713	£197,947,914	-£19,702,799	90.95%
2	Less-Developed	£15,383,144	£10,427,121	-£4,956,023	67.78%
2	Transitional	£18,940,235	£9,745,973	-£9,194,261	51.46%
2	More-Developed	£88,281,500	£36,193,048	-£52,088,452	41.00%
3	Less-Developed	£2,459,085	£1,585,928	-£873,157	64.49%
3	Transitional	£10,938,637	£5,706,756	-£5,231,881	52.17%
3	More-Developed	£35,983,926	£23,013,414	-£12,970,513	63.95%
TOTAL		£716,921,208	£479,011,370	-£237,909,838	66.82%

27. The enhanced tools introduced to support the performance improvement process have been referenced in previous papers. The MA continues to utilise these to drive improved performance of deliverables for Direct Bids and performance is indeed improving, as reflected in the above table. Direct Bids are currently at 66.82% of profile, compared to the last report, where members will have noted the achievement was 77.23% of profile, when measured against the Q3 2019 target.

28. Since then, for both financials and deliverables, Contract Managers have been more equipped to challenge poor performance. Authorising Managers are checking this as part of their role, underperformance is therefore being tackled robustly and this will continue to be

a focus going forward. These enhanced performance management tools are also used to manage CFO performance.

29. It can be seen however, that the performance of Direct Bids has dipped slightly in the Q1 2020 claims. Although this is within the broad range of previous performance, it has halted the more recent performance improvement. Only two weeks of the “lockdown” featured in Q1, it is therefore anticipated, as referred to in the summary to this report, that a much more severe performance reduction will be evidenced in Q2.