



Growth Programme for England

ESI Funds Growth Programme Board

ERDF Potentially Available

Purpose:

To advise the board on the Managing Authority's planned use of the unallocated ERDF money.

Recommendations

That the Growth Programme Board note the current position.

Summary:

As we approach the end of the programme the ERDF Managing Authority (MA) seeks to fully commit the programme whilst also managing financial risks associated with FOREX fluctuations. Following the June 2019 calls partners agreed this would be done via a Reserve Fund.

In line with Ministerial steers the MA is looking to use the Reserve Fund to address the long-term impact of Covid-19 with a further £51m investment in the Reopening High Street Fund (RHSSF).

Due to the strengthening of sterling the MA does not plan to make any further investments through the Reserve Fund.

Any small amounts ERDF released through project underspend, irregularities and pipeline attrition will be managed regionally via GDTs. However, there are significant risks to the budget because of FOREX and the department has to manage the financial risk.

The Reserve Fund Approach

1. As set out at GPB meetings last year the MA originally established the Reserve Fund in order to:

- a. Invest 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
- b. 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 MA.

2. The ERDF Reserve Fund, originally expected to be implemented in early 2020, was designed to provide a national mechanism to invest shortfalls in LEP area commitments following the June 2019 call ensuring the maximum value of the programme can be realised.

3. Last year part of the Reserve Fund was used to support Covid-19 recovery interventions: the £51m RHSSF and the £30m Kickstarting schemes.

Value of the Remaining Reserve Fund - Funds Potentially Available

4. The ERDF programme value in euros is €3649m. For operational purposes the programme was valued at £3233m (Forex weighted average of 0.8859) in February 2020.

5. To end of December 2020 the value of project commitment was £2720m (84%). The pipeline applications value is £394m. Altogether these investments will commit the programme to 96% of its value, potentially leaving £119m of unallocated ERDF available for investment:

ERDF Programme Value	£3233m (100%)
Project Commitment (to end of December)	£2720m (84%)
Value of eligible pipeline applications in appraisal	£394m (12%)
Funds potentially available, before RHSSF+ investment (subject to FOREX fluctuations)	£119m (4%)
Split by CoR:	
More Developed Region	£38m
Transition Region	£67m
Less Developed Region	£14m

6. The commitment value includes national Covid-19 response projects that were funded under Priority Axis 3 and Priority Axis 10, i.e. the £51m RHSSF and the £30m Kickstarter schemes.

7. The funds potentially available is impacted by:

- a. **FOREX variations.** Whilst the MA maintains a notional FOREX rate for short term operational and reporting purposes it does need to give consideration of the longer-term picture to manage its financial risk. For instance, on 9 March FOREX was 0.8569, which means that £1620m is left to be claimed, a reduction of £54m from what would be left as per the current 0.8859 programme rate.
- b. **Pipeline realisation.** The pipeline is mature and in final stages of appraisal. It is expected that it will be realised. However, there may be some applications that don't absorb all the funding.
- c. **Programme Performance.** If projects don't fully invest their funds we will look at recycling the money bearing in mind FOREX risk.

Use of the Reserve Fund – Funds Potentially Available

Reopening High Street Fund Safely +

8. As mentioned in previous meetings, the Secretary of State provided a steer that a further £51 million EDRF should be invested into the Reopening High Street Fund (RHSSF+) to support the safe return to high streets in summer 2021 but also to help to begin to build back better from the pandemic.

9. The RHSSF+ will be rolled out across England using the same population-based distribution methodology as the RHSSF and will seek to help c.300 local authorities (LAs) support their high street and local businesses with advice and extra social distancing measures. LAs will therefore see their original RHSSF allocation double and the Categories of Region split will be as follows:

	Less Developed	Transition	More Developed
RHSSF+ allocation	£0.55m	£9.6m	£40.8m ¹

10. In developing the RHSSF+ the MA has reflected on feedback gathered at recent Performance and Dispute Resolution sub-committee (PDR) meetings, through consultation with LAs already in receipt of RHSSF and the Fund's project team. The following changes have been made in response:

- a. **Scope** – As per PDR recommendations RHSSF+ will continue to provide funding without match requirement and continue to support existing RHSSF activities. In addition, in response to LA feedback, the fund will also:
 - i. Support and promote a safe public environment for a local area's visitor economy; and
 - ii. Allow local areas to develop plans for responding to the long-term impact of Covid-19 including trialling new ideas particularly where these relate to the High Street.
- b. **Delivery** – The MA recognised that there have been challenges in getting the RHSSF up and running, however, there are number of considerations that will ensure that the RHSSF+ is delivered more smoothly.
 - i. **Building on an established delivery structure** – The MA is confident that the project has now developed sound working relationships with LA partners which will ensure more effective.
 - ii. **Broadened Scope** – The broadened scope will mean that eligible expenditure is more in line with the needs of LAs and as such we anticipate much higher absorption rates. In addition, given the nature of the contract, any leftover from the original RHSSF allocation can be directed to these new eligible activities.
 - iii. **No retrospective expenditure** – The RHSSF allowed for retrospective expenditure based on guidance provided at the launch. This led to issues regarding ineligible expenditure once contracting began with LAs. The launch of the RHSSF+ will signal the beginning of a discussion between LAs and the Fund's contract managers to agree the parameters of new activities. The guidance will be updated accordingly, and

¹ The More Developed Region £2.8m shortfall in unallocated funding will be managed by the MA.

expenditure will be able to begin once this has been done. The MA would encourage the RHSSF team to engage with LAs in a clear and timely way around eligibility to avoid any misunderstanding.

- iv. **Administration Budget Available** - As recommended by the PDR the guidance will be eased around the 4% spend limit for staffing resources and will be updated to enable partnership with local players such as Business Improvement District to facilitate the delivery of the activities and relieve LAs from additional admin burden.
- c. **Timing** – The MA plans to launch the RHSSF+ in the coming weeks so that activities funded by the additional £51m can be undertaken over the Summer and Autumn this year. There will also be an additional dimension that enables LAs to trail ideas for addressing the longer-term economic impact of Covid-19. As such the funding will be made available until March 2022. This will allow sufficient time for any unspent monies to be recycled into other ERDF projects (see recycling below).

11. Five LAs rejected the original RHSSF offer. These will not be excluded from the RHSSF+ and will still be able to claim their original allocation. And whilst the broadening of the scope should also help LAs to maximise their allocations more easily, the MA recognises that some LAs might still reject the offer for capacity reasons. As such the MA would be open to the possibility of LAs pooling their allocation together or transferring it to another local government entity to deliver on their behalf.

Visitor Economy package

12. The Secretary of State provided a steer that remaining unallocated EDRF investment be made available for grants to Visitor Economy SMEs.

13. Due to the FOREX considerations set out above the MA has concluded that at this time we are unable to commit funding to such a proposal.

Recycling

14. The MA is also exploring how to use the EDRF released through project underspend, irregularities or pipeline project rejection / withdrawal (i.e. attrition). A formal call for applications would not be practical as:

- a. There is uncertainty around when money would be made available;
- b. The amounts released are likely to be relatively small;
- c. The timescale is tight as the programme finishes in 2023 and the funding needs to be reallocated as soon as possible; and
- d. Cost/benefits of processing requests this way would not be proportional considering the likely sums involved.

15. The MA is therefore proposing to use this funding regionally. Decisions would be taken by GDTs based on their understanding of projects performances and compliance as well as of the needs and challenges of local areas. The decision mechanism would be transparent and as light as possible. This would be limited to existing projects as these projects have already been agreed to have strategic fit within an area and it is now too late and the size of the funding is likely to be too small to run calls for new projects.

16. Deliverability would be key in determining whether a project should receive additional funding. With the window for spending ERDF narrowing and a hard-financial end date of June 2023, it is essential that funding goes to projects that can use it.

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