

EUROPEAN STRUCTURAL AND INVESTMENT FUNDS (2014-2020) GROWTH PROGRAMME FOR ENGLAND

ITEM 3: PRIORITY AXIS 3 & 4 RESPONSE TO PERFORMANCE NSC ACTION REQUEST

Action Point 126: MA to provide initial intelligence at the next PDR meeting as to the reasons for the higher unit cost of outputs within the Transition areas

Context

At an earlier meeting of the PDRSC, members expressed concern that the achievement of the performance framework output target for Priority Axis 4 in the transition category of Region seemed much lower than the achievement in the more developed region

1. Performance Framework

The rationale and calculations for the PA4 performance framework are set out in detail in Annex A. The key points to note are:

- PA4 is a complex PA with 5 different investment priorities (IPs) covering a broad range of activity.
- The PA is new to the Programme and although 35 projects were mapped over to the new PA from the 2007-13 programme, but the analysis did not reflect category of region differences.
- In addition, although the projects selected covered the 5 IPs only 3 included C34 analysis which was brought into a single unit cost for non-FI activity.
- Similarly, there was a limited evidence base for FIs with only one project being selected for the analysis.

With the limited evidence base and diverse nature of PA 4 activity it is inevitable that unit costs in practice are likely to diverge significantly across projects.

2. Current Position

| Expenditure | | | | | | |
|--------------------------|-----------------------|-----------------------------------|----------------------------|-------------------------------------|---------------------------------|--------------------------------------|
| Category of Region (CoR) | Target (total exp) £M | Total Expenditure in contracts £M | Exp Contracted vs Target % | Total expenditure in Claims Paid £M | % Target to Claims paid to date | Total expenditure Pipeline Claims £M |
| More Developed | £844.49 | £799.36 | 94.66% | £491.66 | 58.22% | £23.03 |
| Transition | £273.61 | £260.26 | 95.12% | £171.83 | 62.80% | £6.65 |

| Outputs | | | | | | |
|--------------------------|--------|-------------|---|----------------------|--|-----------|
| Category of Region (CoR) | Output | 2023 Target | Forecast Delivered to 2023 from contracts | Forecast Delivered % | Actual Achieved in PAID Claims to date | % to date |
| More Developed | C34 | 238,306 | 325,616 | 136.6% | 137,857 | 57.8% |
| Transition | | 77,211 | 82,585 | 107.0% | 34,561 | 44.8% |

Based on the above data the target, actual and forecast average cost per output are as follows:

| CoR | Performance Framework | Actuals to Date | Contracted |
|----------------|-----------------------|-----------------|------------|
| More Developed | £3,544 | £3,566 | £2,454 |
| Transition | £3,544 | £4,972 | £3,151 |

In terms of contracting, we can see that the unit costs are much lower in the MDR than Transition. As with the PA3 C1 analysis we have reviewed possible reason for this variation. In terms of actuals to date there is clearly a discrepancy between that being achieved and that contracted. This may, however, be explained by significant C34 outputs being linked to the end of projects as opposed to being delivered during them.

3. Financial Instrument Spend

| CoR | Performance Framework | Contracted |
|----------------|-----------------------|------------|
| More Developed | 23% | 30% |
| Transition | 32% | 18% |

As illustrated above whilst the level of Financial Instrument investment is not commensurate to that anticipated in the operational programme, this has no material impact as the performance framework non- FI and FI unit costs for PA4 are the same.

4. Capital Spend

| | ERDF Contracted MDR | C34 Outputs Contracted MDR | ERDF Contracted Transition | C34 Outputs Contracted Transition |
|---------------------|---------------------|----------------------------|----------------------------|-----------------------------------|
| Capital | 27% | 20% | 22% | 18% |
| Capital and Revenue | 62% | 39% | 66% | 55% |
| Revenue | 11% | 41% | 12% | 26% |
| Total | 100% | 100% | 100% | 100% |

The above provides an indication of the split of capital investments across PA3. In terms of the associated Rates these are set out below:

| | MDR | | | | Trans | | | |
|---------------------|--------|--------|--------|----------|--------|------|--------|----------|
| | FI | | Non-FI | | FI | | Non-FI | |
| | Low | High | Low | High | Low | High | Low | High |
| Capital | £1,094 | £2,647 | £2,542 | £59,718 | £1,094 | | £6,211 | £22,986 |
| Capital and Revenue | £5,941 | | £426 | £45,369 | £- | | £348 | £137,632 |
| Revenue | £- | | £138 | £159,560 | £- | | £340 | £71,684 |

The data above helps illustrate that the diverse nature of projects being supported in PA4 means that there are wide variations in the unit costs being achieved in regardless of category of region and capital/ revenue mix.

Annex A – Performance Framework Paper Extract

Priority Axis 4: Supporting the shift towards a low carbon economy

Total eligible expenditure by Category of Region

| Category of Region (CoR) | Total eligible expenditure |
|--------------------------|----------------------------|
| Less Developed | € 95,007,897 |
| Transition | € 315,714,657 |
| More Developed | € 974,432,508 |

The sections below provide of proposed unit costs based on analysis of the current programme (2007-2013).

Transition and More Developed Regions

Outputs from 2007-13 programmes

We identified a comparator group of 35 projects with a total project value of £347,343,481 (ERDF and all public and private match that could be mapped across to Priority axis 4 of the draft 2014-2020 ERDF operational programme. An average cost was worked out for each project and the mean then taken for all projects.

Analysis indicates:

Investment Priority 4a – Promoting the production and distribution of energy derived from renewable sources

- A mean average cost per enterprise supported of £244,378.
- A mean average cost per mw of new energy capacity of £1,906,148/mw.

Investment Priority 4b – Promoting energy efficiency and renewable energy use in enterprises

- A mean average cost per enterprise supported of £16,692.
- Other relevant outputs, such as estimated GHG reductions and co-operation with research entities were not readily captured by 2007-2013 projects.

Investment Priority 4c – Supporting energy efficiency in public infrastructure

- A mean average cost per enterprise supported of £48,840.
- A mean average cost per tonne reduction in GHG of £985.
- One JESSICA Financial Instrument, with a value of £120,000,000 supported a reduction in GHG of 78,467 tonnes, at a unit cost of £1,529/tonne.

Investment Priority 4e – Promoting low carbon strategies

- A mean average cost per enterprise supported of £28,287.
- Other relevant outputs, such as estimated GHG reductions and number of households with improved energy consumption classification were not readily measurable.

- Five selected projects focused on transport improvements. However, within this priority axis, and this investment priority in particular, it was difficult to map projects and outputs between the current and new programmes due to the lack of corresponding activities and priorities in 2007-2013 programmes.

Investment Priority 4f – Promoting research and innovation in, and adoption of low carbon technologies

- The remaining projects resulted in:
 - A mean average cost per enterprise supported of £46,136.
 - A mean average cost per new to firm or new to market products of £185,614.
 - A mean average cost per enterprise co-operating with research entities of £476,537.
- The conversion ratio from enterprise supported to new to firm/new to market products was found to be 1: 4.02. In addition, the conversion from enterprise supported to co-operation with a research entity is 1: 10.77.

Summary

With a few exceptions, the 2007-2013 programmes have typically not measured outputs that provide significant comparator data with which to inform priority axis 4. These limits mean that unit cost assumptions in priority axis 4 have had to be drawn from a relatively small project sample and are therefore inherently less stable. As a result, there is a higher potential for target values in this priority axis to be subject to review and adjustment during the programming period, as allowed for in Article 5(6) of Commission Implementing Regulation (EU) No 215/2014.

Proposed Unit Costs – Enterprises Supported

Taking account of 2007-13 data, the hybrid innovation and energy efficiency focus of Priority 4, and future inflation, the proposed unit cost for enterprises supported in Priority 4 is £20,500 (£27,409) for More Developed and Transition regions.

This represents a mid-point between Priority 3 unit costs and Priority 1 unit costs

Proposed Unit Costs – Energy Efficiency FI

Based on a single project, the London JESSICA fund, with an ERDF contribution of £60m, the following figures result:

| | Output | Unit Cost |
|--|--------|----------------|
| Employment Inc. in supported enterprises | 100 | £1,200,000/job |
| CO2 | 78,467 | £1,529/tonne |
| Private leverage | £60m | £1/£ ERDF |

In the absence of more robust analysis due to the small sample size, it is reasonable to use these figures on an inflation adjusted basis.

ERDF Notional Unit Costs – Low Carbon FI

Based on a single project, the Low Carbon Innovation Fund, with an ERDF value of £20,500,000, the following figures result:

| | Output | Unit Cost |
|--|-------------|---------------------|
| Enterprises supported | 70 | £292,857/enterprise |
| Employment increase in supported enterprises | 617 | £33,225/job |
| Private leverage | £30,174,000 | £1.47/£ ERDF |

In the absence of more robust analysis due to the small sample size, it is reasonable to use these figures on an inflation adjusted basis.

Proposed Unit Costs

This priority axis has more limited comparison with 2007-2013 programmes, and was therefore not fully addressed by Hatch Regeneris as part of its unit costs work. The analysis undertaken was based on a very limited sample and it is complex owing to the number of investment priorities and the difficulties of direct comparisons with the previous period. However based on the information held (using the projects with the highest level of outputs), the **unit cost of £1,529 ERDF contribution was used for each tonne of GHG reduction in the performance framework in more developed regions converting to a total eligible unit cost of £3,058. The same unit cost would require a contribution from ERDF of £1834.4 in transition regions.**

Less Developed Region

Outputs from 2007-13 programme: no corresponding projects from the C&IoS Convergence Programme map across to this Priority Axis.

Proposed Unit Costs

As a result the GHG reduction unit costs for the less developed region have been based on those for the Transition and More Developed Regions analysis.

The proposed unit cost for enterprises supported for the less developed region has been based on a mid-point between the unit costs for Priority 1 and Priority 3 enterprises supported.

Performance Framework and targets

Table 6 below sets out the indicator and implementation step chosen for the performance framework for this axis. The challenge is to move England's economy towards a low carbon model by reducing the levels of Green House Gas (GHG) emissions by increasing the share of renewable energy, and enhancing the energy efficiency of homes, businesses and transport.

The output indicator selected is reduction in GHG emissions which underpins all the investment priorities, so will account for 100% of total eligible expenditure and the target was calculated using the anticipated unit cost of £3,058 (£4,089) for GHG emissions.

We have used an implementation step for 2018 as evidence from the 2007-2013 programmes suggests there will be too few, if any, completed operations by 2018 to set a reasonable milestone. The implementation step is based on the number enterprises supported from completed or partially completed operations. This implementation step will measure outputs completed and verified, rather than outputs where costs have been defrayed but not yet fully completed or verified

The cumulative nature of counting reductions from GHG mean it is difficult to use this as the basis for the implementation step for 2018.

Calculation:

Implementation step

Revenue Spend by 2018 *divided by* Proposed Unit Cost(s) x 70% (to account for time lag) = 2018 outputs.

Number of Enterprises Supported

£/€ spent by 2018 divided by

(Unit cost for no of enterprises supported x 70%) - representing 1st year spend + 2nd year spend (not inc. any 3rd year spend to account for slippage) equals

Total number of outputs partially complete or complete by 2018.

Calculated based on an estimated 40% revenue of the total eligible expenditure for more developed and transition regions and estimated 25% revenue spend of the total eligible expenditure for less developed.

| CoR | € spend by 2018 | € Unit Cost | Outputs x 70% |
|----------------|-----------------|-------------|---------------|
| Less Developed | € 3,724,772 | €62,768 | 42 |
| Transition | € 19,804,084 | € 27,409 | 506 |
| More Developed | € 61,124,000 | € 27,409 | 1561 |

Number of Enterprises Supported (FI)

£/€ spent by 2018 divided by

(Unit cost for no of enterprises supported x 70%) - representing 1st year spend + 2nd year spend (not inc. any 3rd year spend to account for slippage) equals

Total number of outputs partially complete or complete by 2018.

Calculated based on an estimated 12% FI spend of the total eligible expenditure for more developed and estimated 19% FI spend of the total eligible expenditure for transition regions

| CoR | € spend by 2018 | € Unit Cost | Outputs x 70% |
|----------------|-----------------|-------------|---------------|
| Less Developed | €0 | €0 | 0 |
| Transition | € 9,406,940 | € 391,550 | 17 |
| More Developed | € 18,337,200 | € 391,550 | 33 |

Number of Enterprises Supported (total)

| CoR | | | Total |
|----------------|--|--|-------|
| Less Developed | | | 42 |
| Transition | | | 523 |
| More Developed | | | 1,594 |

2023 Target

Total spend by 2023 *divided by* Proposed Unit Cost(s) = 2023 outputs.

*£/€ spent by 2023 divided by
(Unit cost per tonne of GHG emissions reduced)
equals
Total number of outputs by 2023.*

| CoR | € spend by 2023 | € Unit Cost | Total |
|----------------|-----------------|-------------|---------|
| Less Developed | € 95,007,897 | € 4,089 | 23,235 |
| Transition | € 315,714,657 | € 4,089 | 77,211 |
| More Developed | € 974,432,508 | € 4,089 | 238,306 |

Table 6: The Performance framework of the priority axis (by fund and by category of regions where appropriate)

| ID | Indicator Type | Indicator or key implementation step | Measurement unit | Category of region | Milestone for 2018 | | | Final target (2023) | | | Source of data | Explanation of relevance of indicator where appropriate |
|-----|----------------|--|------------------------------|--------------------|--------------------|---|-----|---------------------|---|---------|-----------------|---|
| | | | | | M | W | T | M | W | T | | |
| C34 | Output | Estimated GHG reductions | tonnes of CO ₂ eq | less | | | | | | 23,235 | Monitoring data | This indicator covers all expenditure under the investment priorities |
| C34 | Output | Estimated GHG reductions | tonnes of CO ₂ eq | transition | | | | | | 77,211 | Monitoring data | This indicator covers all expenditure under the investment priorities |
| C34 | Output | Estimated GHG reductions | tonnes of CO ₂ eq | more | | | | | | 238,306 | Monitoring data | This indicator covers all expenditure under the investment priorities |
| 1 | Implementation | Number of enterprises supported from completed or partially completed operations | Enterprises | Less | | | 42 | | | | | Evidence from the 2007-13 programmes suggests there will be too few, if any, completed operations by 2018 to set a reasonable milestone. This implementation step will measure outputs completed and verified, rather than outputs where costs have been defrayed but not yet fully completed or verified. This implementation step is linked to 4 of the five investment priorities under PA4. |
| 1 | Implementation | Number of enterprises supported from completed or partially | Enterprises | Transition | | | 523 | | | | | Evidence from the 2007-13 programmes suggests there will be too few, if any, completed operations by 2018 to set a reasonable milestone. This implementation step will measure |

| | | | | | | | | | | | | |
|----|----------------|--|-------------|------------|--|--|-------------|--|--|-------------|-----------------|---|
| | | completed operations | | | | | | | | | | outputs completed and verified, rather than outputs where costs have been defrayed but not yet fully completed or verified. This implementation step is linked to 4 of the five investment priorities under PA4. |
| 1 | Implementation | Number of enterprises supported from completed or partially completed operations | Enterprises | More | | | 1,594 | | | | | Evidence from the 2007-13 programmes suggests there will be too few, if any, completed operations by 2018 to set a reasonable milestone. This implementation step will measure outputs completed and verified, rather than outputs where costs have been defrayed but not yet fully completed or verified. This implementation step is linked to 4 of the five investment priorities under PA4. |
| F1 | Financial | Expenditure | Euros | Less | | | 14,899,089 | | | 95,007,897 | Monitoring data | The milestone for 2018 and target for 2023 relate to the total eligible expenditure entered into the accounting system of the certifying authority and certified by that authority |
| F1 | Financial | Expenditure | Euros | Transition | | | 49,510,209 | | | 315,714,657 | Monitoring data | The milestone for 2018 and target for 2023 relate to the total eligible expenditure entered into the accounting system of the certifying authority and certified by that authority |
| F1 | Financial | Expenditure | Euros | More | | | 152,810,001 | | | 974,432,508 | Monitoring data | The milestone for 2018 and target for 2023 relate to the total eligible expenditure entered into the accounting system of the certifying authority and certified by that authority |

Annex B

| UK Business Counts - enterprises by industry and employment size band | | | |
|--|--------------------|------------------|-----------------------|
| ONS Crown Copyright Reserved [from Nomis on 7 November 2019] | | | |
| date | | 2019 | |
| employment sizeband | | Total | |
| legal status | | Total | |
| | | | |
| COR | Nos Of LEPs | | |
| LD COR | 1 | | |
| MD COR | 24 | | |
| MD / T COR | 7 | | |
| T COR | 6 | | |
| | | | |
| LEP | COR | Total | % of Total Businesses |
| Black Country | MD | 33,555 | 1.33% |
| Buckinghamshire Thames Valley | MD | 31,150 | 1.23% |
| Cheshire and Warrington | MD | 43,325 | 1.71% |
| Coast to Capital | MD | 92,680 | 3.66% |
| Cornwall and Isles of Scilly | LD | 24,450 | 0.97% |
| Coventry and Warwickshire | MD | 38,045 | 1.50% |
| Cumbria | T | 23,670 | 0.93% |
| Derby, Derbyshire, Nottingham and Nottinghamshire | MD | 72,900 | 2.88% |
| Dorset | MD | 32,655 | 1.29% |
| Enterprise M3 | MD | 80,465 | 3.18% |
| Gloucestershire | MD | 29,630 | 1.17% |
| Greater Birmingham and Solihull | MD + T | 73,170 | 2.89% |
| Greater Cambridge and Greater Peterborough | MD | 72,810 | 2.88% |
| Greater Lincolnshire | T | 38,085 | 1.50% |
| Greater Manchester | MD | 104,110 | 4.11% |
| Heart of the South West | MD + T | 72,080 | 2.85% |
| Hertfordshire | MD | 65,640 | 2.59% |
| Humber | T | 30,130 | 1.19% |
| Lancashire | T | 53,095 | 2.10% |
| Leeds City Region | MD | 107,515 | 4.25% |
| Leicester and Leicestershire | MD | 42,345 | 1.67% |
| Liverpool City Region | MD + T | 42,615 | 1.68% |
| London | MD | 522,240 | 20.63% |
| New Anglia | MD | 62,995 | 2.49% |
| North East | MD + T | 52,695 | 2.08% |
| Oxfordshire | MD | 31,670 | 1.25% |
| Sheffield City Region | MD + T | 56,170 | 2.22% |
| Solent | MD | 44,480 | 1.76% |
| South East | MD | 173,315 | 6.85% |
| South East Midlands* | MD | 94,105 | 3.72% |
| Stoke-on-Trent and Staffordshire | T | 39,155 | 1.55% |
| Swindon and Wiltshire | MD | 29,925 | 1.18% |
| Tees Valley | T | 17,765 | 0.70% |
| Thames Valley Berkshire | MD | 45,405 | 1.79% |
| The Marches | MD + T | 31,145 | 1.23% |
| West of England | MD | 45,685 | 1.80% |
| Worcestershire | MD | 27,005 | 1.07% |
| York, North Yorkshire and East Riding | MD + T | 53,810 | 2.13% |
| | | 2,531,685 | 100.00% |
| * Includes merger of Northamptonshire | | | |