

Item No.11

GREATER MANCHESTER LOCAL ENTERPRISE PARTNERSHIP BOARD

SUBJECT: EUROPEAN STRUCTURAL INVESTMENT FUNDS
UPDATE

DATE: 19 SEPTEMBER 2016

FROM: SIMON NOKES, NEW ECONOMY

1.0 BACKGROUND AND PURPOSE OF REPORT

1.1 This report provides GM LEP members with an update on the implications for Greater Manchester's ESIF Funding following the EU Referendum vote and the recent announcement from the Chancellor of the Exchequer on the steps the Treasury is taking to address the uncertainty surrounding European funds that has been in place following the EU referendum.

2.0 RECOMMENDATIONS

2.1 The recommendations within the report are as follows:

- That GM LEP supports GMCA in seeking urgent assurance from Government that it will commit to fully fund all Greater Manchester ESIF projects that are currently "under assessment" , recognising the limited capacity of both DCLG and DWP to speedily progress projects to contract by the arbitrary deadline of the Autumn Statement;
- That GM LEP supports GMCA in seeking assurance from Government that it will fully fund the total value of GM's ESIF programme to 2020 as set out in Greater Manchester's ESIF Plan;
- That GM LEP supports GMCA in seeking clarification from Government regarding the timing of future calls within this programme period, in order for Greater Manchester to continue to deliver the 2014-2020 ESIF Plan.

3.0 INTRODUCTION

3.1 Following the EU referendum vote on 23rd June 2016, there has been a high degree of uncertainty on the implications of the vote on the 2014-2020 European Structural Investment Funds programme (ERDF and ESF) nationally and locally.

3.2 Greater Manchester's ESIF allocation for the programme period is €413.8m (approx. £322m at January 2016 exchange rates), and Greater Manchester prudentially planned for two phases of ESIF projects 2014-2018 and 2018-2022.

3.3 The 2014-2020 ESIF programme had a slow start as a result of lengthy negotiations between HM Government and the European Commission. This delay has meant that only limited funding has progressed to contract before the referendum vote – c11% of GM's ERDF allocation and c27% of ESF. With little correspondence from Government post EU referendum, there were significant concerns the majority of Greater Manchester's ESIF funding programme was at risk.

3.4 On 13th August, a statement was released by the Chancellor of the Exchequer which can be found [here](#). This set out Government's intention that in the short term, all ESIF projects that can be under contract by the 2016 Autumn Statement (late November 2016) will be fully funded. In the medium term, that new arrangements will be put in place to consider ESIF projects post-Autumn Statement.

3.5 Although the statement initially appears positive, it is very concerning that Government are using the date of the Autumn Statement as an arbitrary deadline for guaranteeing ESIF projects that are contracted by that date. A more logical approach would be to demonstrate spend by the end of 2018/9, not by constraining spend per se. This is not consistent with a fiscal stimulus requirement at a time when the national economy is slowing down - indeed given that we remain a contributor to the EU till we leave, this policy is more consistent with a medium term policy of securing a rebate from the EU.

3.6 This report considers the implications of the Chancellor's announcement for Greater Manchester, and how we can maximise access to the Greater Manchester ESIF allocation to meet our priorities as set out in our ESIF Plan. The report considers ERDF and ESF funding separately.

4.0 ERDF PROGRESS TO DATE

4.1 The Greater Manchester ERDF allocation for 2014-2020 is c.£177.5million (subject to exchange rate fluctuations).

4.2 Following the long delays to the start of the ESIF 2014-2020 programme, Greater Manchester has been very active in working with DCLG to progress ERDF funded projects to meet Greater Manchester's priorities as identified in the Greater Manchester ESIF Plan.

4.3 Calls have been issued for PA1 (science and innovation), PA3 (competitive businesses) and PA4 (low carbon) in 2015 and early 2016. On average it is taking at least twelve months from calls for projects being issued to successful applicants being under contract. This slow progress in assessing applications has meant that almost 90% of Greater Manchester's ERDF allocation is not under contract and therefore at risk. This is detailed in the table below.

Table 1: Greater Manchester ERDF Allocation		
Total ERDF allocation: £177.5m		
Contracted	£19.6m	11.0% of total ERDF allocation
Under assessment (at risk)	£115.8m	65.2% of total ERDF allocation
Future calls (at risk)	£42.1m	23.7% of total ERDF allocation
Total at risk	£157.9m	88.9% of total ERDF allocation
PA1: Science and Innovation: ERDF allocation £62m		
Contracted	£ 8.9m	14.4% of PA allocation
Under assessment (at risk)	£37.6m	60.6% of PA allocation

Future calls (at risk)	£15.5m	25.0% of PA allocation
Total at risk	£53.1m	85.6% of PA allocation
PA3: Competitive Business: ERDF allocation £64m		
Contracted	£10.7m	16.7% of PA allocation
Under assessment (at risk)	£36.7m	57.3% of PA allocation
Future calls (at risk)	£16.6m	26.0% of PA allocation
Total at risk	£53.3m	83.3% of PA allocation
PA4: Towards a low carbon economy: ERDF allocation £51.5m		
Contracted	£0m	0.0% of PA allocation
Under assessment (at risk)	£41.5m	80.6% of PA allocation
Future calls (at risk)	£10.0m	19.4% of PA allocation
Total at risk	£51.5m	100% of PA allocation

4.4 The £19.6m of contracted projects includes business support provision until 2018 (Access to Finance, Growth Hub, Innovation and Sector support, etc.) as well as one of the four science capital projects (GEIC).

4.5 The significant amounts of funding under assessment reflect the Greater Manchester investment in financial instruments (Evergreen 2, Greater Manchester Low Carbon Fund and Northern Powerhouse Investment Fund). These financial instruments are currently at outline assessment stage with DCLG with a combined value of £92m. Further business support projects (self-employment, international trade, business energy efficiency) as well as the three remaining science capital projects are also at assessment stage.

4.6 There is a further £42.1m at risk as identified in the table above. This is funding firstly allocated for calls planned for July 2016, including two commercialisation/innovation calls to build on the science capital ERDF investment of £15m. Secondly, this is funding allocated to follow on projects relating to business support and low carbon projects post-2018 when contracted or under assessment projects are due to end.

5.0 ESF PROGRESS TO DATE

5.1 The Greater Manchester ESF allocation for 2014-2020 is c.£145.2million (subject to exchange rate fluctuations).

5.2 Despite delays to the programme launch, the Greater Manchester ESIF team have worked with its Co-Financing Organisations (CFO), the Skills Funding Agency (SFA) and the Big Lottery Fund (BLF) for them to develop, procure and manage ESF contracts on behalf of Greater Manchester which reflect our priorities in the ESIF Investment Plan. To date this covers seven contracts (six with the SFA, one with the BLF) totalling £39.6m.

5.3 The ESF Managing Authority (DWP) has MoUs in place with each CFO for the contracted values. The ESF Managing Authority (DWP) therefore classifies these funds as being committed / contracted even if the CFO is still in the process of procuring or agreeing contracts with providers. As a result, both CFOs have continued on a business as usual basis, and all SFA and BLF procurement is anticipated to complete in advance of the Autumn Statement. It is worth noting that SFA contracts will conclude in March 2018, with the exception of the Skills for Employment programme which is July 2019. The BLF contract is expected to finish in December 2019.

5.4 In addition, Trafford Council, on behalf of the GMCA, has secured CFO status. This status enables Greater Manchester to apply for a significant proportion of its ESF allocation in one or more ‘block’ requests which then place Greater Manchester in control of processes to commission, contract and manage ESF activity itself. Match funding must be confirmed and in place to enable Greater Manchester to draw down ESF investment.

5.5 Greater Manchester is developing its first CFO application to support the Working Well project and the emerging Work & Health programmes. This £14m application is in the ESF MA (DWP) pipeline and classified as “under assessment”.

5.6 Greater Manchester’s officers now have a clearer understanding of DWP’s match into the Work & Health Programme and this presents a real opportunity to maximise ESF investment in GM’s CFO application potentially up to £32.7m until March 2022, by also including the Work & Health Programme within a single CFO application to the ESF Managing Authority (DWP). This will be subject to GM Treasurer’s due diligence and will be taken to the GMCA for final decision to progress.

Table 2: Greater Manchester ESF Allocation		
Total ESF allocation: £145.2m		
Contracted	£39.6m	27.3% of total ESF allocation
Under assessment (at risk)	£32.7m	22.5% of total ESF allocation
Future calls (at risk)	£72.9m	50.2% of total ESF allocation
Total at risk	£145.2m	72.7% of total ESF allocation
PA1: Inclusive Labour Markets: ESF allocation £81.4m		
Contracted	£23.0m	28.3% of PA allocation
Under assessment (at risk)	£32.7m	40.2% of PA allocation
Future calls (at risk)	£25.7m	31.5% of PA allocation
Total at risk	£58.4m	71.7% of PA allocation
PA2: Skills for Growth: ESF allocation £63.8m		
Contracted	£16.6m	26.2% of PA allocation
Under assessment (at risk)	£0m	0.0% of PA allocation
Future calls (at risk)	£47.2m	73.8% of PA allocation
Total at risk	£47.2m	73.8% of PA allocation

5.7 A further £72.9m of future calls (50% of the ESF allocation) is at risk. The majority of this relates to PA2: Skills for Growth. Greater Manchester planned to commission follow-on skills programmes through its CFO arrangements post-2018 once the Adult Education Budgets were devolved and the SFA ceased to be a CFO and provide match funding. This remains an urgent priority and there may be an opportunity for Greater Manchester to submit a further CFO proposal to draw down a significant proportion the funding allocation for future calls, subject to identification of match funding and GM Treasurer’s due diligence. Should this opportunity crystallise, it will be presented to GMCA for final decision to progress.

6.0 IMPLICATIONS OF THE CHANCELLOR’S STATEMENT FOR GM

6.1 The long-awaited statement from the Chancellor of the Exchequer is positive, in that it confirms that ESIF projects that are contracted ahead of the Autumn Statement will be fully funded. However it provides little more than a firm short term position, with uncertainty remaining about new arrangements to

assess ESIF projects post-Autumn Statement and no certainty that CLG/DWP will have the capacity to agree projects 'in appraisal' - for GM, the value of these projects is £148.5m.

6.2 The statement presents Greater Manchester with a number of concerns.

6.3 Firstly, based on recent experience of working with both DCLG and DWP (for ERDF and ESF respectively), the assessment and contracting process has been very slow, indeed the GM Fund of Funds financial instrument call was issued in August 2015, and is still at outline assessment stage. Equally, a number of the outstanding business support projects which were responding to calls issued in March 2015 are only now at pre-contracting stage.

6.4 This raises very real issues about the ability of DCLG to assess and take to contract the Greater Manchester ERDF projects that are under assessment ahead of the Autumn Statement. The total value of these projects is £115.8million, which includes £92m of funding for Greater Manchester Fund of Funds and the Northern Powerhouse Investment Fund.

6.5 Similar concerns exist about the ability of DWP to assess Greater Manchester's first CFO application ahead of the Autumn Statement. The potential future value of which could be up to £32.7m to support both Working Well and the Work and Health programmes.

6.6 Secondly, at the request of the GM ESIF Committee, the GM ESIF team has prepared two ERDF commercialisation/innovation calls, originally planned to be issued in July 2016, with a value of £9.5million. These calls were designed to follow up on, and build upon, the GM ERDF investment in science capital projects in order to maximise support for Greater Manchester's science and innovation priorities. With no indication of when a new call round will be held, and the slow process of assessment, it is all but certain potential projects will not reach contract stage for this priority by the time of the Autumn Statement

6.7 Thirdly, looking forward, the majority of projects that are under contract or under assessment are multi-year projects with an end date of 2018, with a small number of ESF projects running to 2019 (with the exception of the financial instruments that will run to 2022). This is as a result of Greater Manchester prudently planning for two phases of ESIF projects, the first to 2018 and the second with a value of c£115m for 2018 onwards. The second phase of projects will be revenue projects, and match funding is not yet in place. This does present a risk in the later part of the programme period for future revenue for skills development and business support.

7.0 RECOMMENDATIONS

7.1 The UK Government has yet to agree a process for exiting the EU, negotiating a new trading relationship with the EU, including potential access to EU structural funds, let alone agreeing a date at which the UK will cease to be a member. While work is underway nationally to address these critically important issues, the UK continues to contribute financially to the EU and the UK continues to be eligible for ESIF funding.

7.2 The challenges outlined in the ESIF Plan that Greater Manchester is using ESIF funding to address, remain the same as before the EU Referendum. The ESIF Plan set out a programme of activity to use ESIF funding to address Greater Manchester priorities over the programme period of 2014-2020. In order

to maximise the impact of ESIF funding within Greater Manchester it is recommended that:

- The GM LEP supports GMCA in seeking urgent assurance from Government that it will commit to fully fund all Greater Manchester projects that are currently “under assessment” , recognising the limited capacity of both DCLG and DWP to speedily progress projects to contract by the arbitrary deadline of the Autumn Statement;
- The GM LEP supports GMCA in seeking assurance from Government that it will fully fund the total value of GM’s ESIF programme to 2020 as set out in Greater Manchester’s ESIF Plan;
- The GM LEP supports GMCA in seeking clarification from Government regarding the timing of future calls, in order for Greater Manchester to continue to deliver the ESIF Plan.