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**Report to:** Green Economy Panel

**Date:** 4 April 2019

**Subject:** **European Structural and Investment Funds (ESIF) and the UK Shared Prosperity Fund (SPF)**

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## **1. Purpose of this report**

- 1.1. To outline current progress of the ESIF programme and share the emerging key principles for its replacement, the UK Shared Prosperity Fund (UKSPF).
- 1.2. To seek feedback from the Panel on the shape of the new UKSPF.
- 1.3. To seek feedback from the Panel on how the remaining Priority Axis 4 uncommitted funds could be spent.

## **2. Information**

### Background

- 2.1. LEPs were asked to develop strategies for the use of European Structural and Investment Funds (ESIF) 2014-2020 in their localities. The €392m (to be matched with a further €392m) Leeds City Region final ESIF Strategy was submitted at the end of January 2014. A refreshed ESIF Strategy was completed in February 2016.
- 2.2. The ESIF budget (2014-2020) as at summer 2018, for the Leeds City Region, is £345.48 million with £179.43 million allocated to the European Regional Development Fund (ERDF funds projects which stimulate regional economic development) and £166.04 million allocated to the European Social Fund (ESF funds projects supporting jobs, helping people get better jobs).
- 2.3. The ESIF programme also includes a small amount of funding from the European Agricultural Fund for Rural Development (EAFRD) to support rural businesses to grow (approx. £5.46 million). All ESI Funds need to be matched 50:50 – therefore overall the programme value is circa £700 million to support local business and communities.

- 2.4. In June 2016 as a result of the outcome of the EU Referendum Government immediately implemented a series of progressive changes to the way the ESIF programme would continue to be implemented during this period of change and up to the point the UK leaves the EU. In its place, post 2020, the Government made a commitment to create a new UKSPF *“designed to reduce inequalities between communities,” delivering “sustainable, inclusive growth”*.

ERDF Progress to date (at 24 January 2019)

- 2.5. Progress overall is good with approximately £76.4 million of funding now contracted and a further £45.47 million of projects at the appraisal stage, plus a further £18.02 million ring-fenced for Sustainable Urban Development purposes. Total pipeline commitments currently represent 78 percent of the total notional Leeds City Region ERDF allocation.

- 2.6. The funding awarded to ERDF projects as at November 2018 will provide support to over 10,000 SME's and help to deliver, for example:

- 8,170 jobs created
- 400 enterprises supported in bringing new products to the market
- 1,000 businesses receiving improved protection from flooding
- 4,000 businesses receiving improved broadband access

- 2.7. Outputs of particular interest to the Panel as at November 2018 include:

- A reduction of 525,000 tonnes of greenhouse gases
- 1,008 businesses with reduced flooding risk
- 212 hectares of habitats supported to better conservation status
- 2,944 households with improved energy efficiency
- 122 hectares of land rehabilitated
- 2,338,856 KW per year decrease in annual primary energy consumption of public buildings

- 2.8. Calls for projects to date include Innovation, SME competitiveness, ICT, low carbon, flood mitigation, environmental mitigation and social inclusion. It is anticipated the final call for projects issued locally will be spring 2019.

- 2.9. The final local Priority 4 Low Carbon call will be based on that already published to date. The call will seek projects supporting the following areas:

- Promoting the production and distribution of energy derived from renewable resources
- Promoting energy efficiency and renewable energy use in enterprises.
- Supporting energy efficiency, smart energy management and renewable energy use in public infrastructure, including in public buildings, and in the housing sector.
- Promoting low-carbon strategies for all types of territories, in particular for urban areas, including the promotion of sustainable multimodal urban mobility and mitigation-relevant adaptation measures.

- Promoting research and innovation in, and adoption of, low carbon technologies

#### ESF Progress to date (at 24 January 2019)

- 2.10. Progress to date has been slower than anticipated. £71.42 million of funding has now been contracted or is at contract stage with a further £7.85 million of projects at the appraisal stage. Total pipeline commitments represent 48 percent of the total notional Leeds City Region ESF allocation.
- 2.11. The funding awarded to ESF projects as at November 2018 will provide support to over 48,000 individuals by helping them to enter and stay in employment with a further 23,000, already in employment, receiving support to progress by increasing their skills levels and earnings.
- 2.12. Further ESF Calls for projects have been published or are planned over the next six months in the areas of mental health support for young people, funding for an improved skills and employment campaign working with business to raise awareness of graduate internship programmes, funding to support skill levels and earnings as well as supporting our inclusive growth ambitions to reach those most removed from the labour market.

#### Progress to date (EAFRD)

- 2.13. The Leeds City Region EAFRD monies aim to support small and micro business in the rural areas of the City Region. Currently Expressions of Interest (EOIs), in response to the May 2018 Calls, have exceeded the amount of funding available (£7 million EOIs against an allocation of £5.2 million). Projects are now being appraised.

#### Summary

- 2.14. Overall the total pipeline commitments for both ERDF and ESF (not including EAFRD) represent 63% (£219.16 million), as at January 2019, of the total notional Leeds City Region ESIF allocation.
- 2.15. Any uncommitted ESIF after final Calls have been published, across the 39 LEPs, is expected to be pooled into a national Reserve Fund for redistribution. This will help to manage the risks of any funding being lost to the England programme and help manage exchange rate fluctuations to the end of the programming period (2023). It is therefore critical that all local ESIF is utilised as originally planned to help deliver the aims and objectives of the City Region's Strategic Economic Plan.
- 2.16. Of interest to the Panel is the funding which remains uncommitted under Priority Axis 4: Supporting the Shift towards a Low Carbon Economy in all sectors. Of the notional priority axis allocation of £33.58 million, 39 percent is currently allocated to the project pipeline. This leaves £14.27 million unallocated and at risk of being pooled into the national Reserve Fund for redistribution if additional projects do not come forward. There are also funds still available under ESF to support skills development and people to gain,

sustain and progress in work. Approximately £86m is still available, with calls planned in a number of areas outlined in 2.8 and 2.12.

A number of other options have also been considered for committing the remaining allocation by the ESIF Local Sub-Committee. Given the remaining funds available, particularly in ESF, the following have been considered:

- **Develop Calls to extend existing provision** – this is possible for some ERDF projects that are near to completion but has now been exhausted for ESF projects. Any ‘phase 2’ projects must ensure they demonstrate that lessons learnt from the first phase have been taken in to account in the development of a revised model of delivery. Regardless all applicants will still have to reapply for further funding under a published call.
- **Republish recent Calls** – in some Call areas, especially ESF, the response has been disappointing. Some of these calls will be republished, in tandem with further awareness raising (see below).
- **Develop a number of more general/speculative Calls at a lower value (ESF only)** - due to the challenge of finding match funding under ESF, whilst speculative, it could generate a number of smaller more niche pilot projects matched to smaller pockets of available funding. Feedback from stakeholders suggests different partners to those who have applied to date may be interested and more suited to apply for smaller and niche activity, which could add value to those approved to date.
- **Moving funds between Priority Axes (PA)** – unfortunately it is not possible to move the allocation of funding to a different PA under ESF. However consideration is being given to ‘trading’ money between PAs with other LEP areas for ERDF. In addition, where the national Performance Reserve targets have not been met (the targets between Government and the European Commission which relate to 6% of the monies in a PA) monies will be automatically decommitted and moved to a better performing PA. PA4 Low Carbon is one of the areas where the target has not been met nationally. It is expected that in Leeds City Region monies will be moved in to priority axes which support innovation and business competitiveness which are performing better.
- **Improve support to applicants** - applicant workshops have been arranged for 8 April 2019 (ESF) and 16 May 2019 (ERDF). At the workshops the Calls that have been published will be discussed further with potential applicants and partners to aid understanding. There will be an opportunity to look at how to present a good application, including technical advice on applying for ESIF, as well as an opportunity to help partners come together and develop partnership/consortia bids. Further to this, an applicant’s surgery day has been arranged for 8 April for applicants to discuss project ideas with the LEP ESIF lead.
- **Decommit funds to the Reserve Fund** – in the event that the allocation remains uncommitted, remaining funds would be pooled into the national

Reserve Fund. Details on the operation of the Fund is still to be confirmed. The funds can still be accessed through this route if needed.

- 2.17. The Panel are asked to provide guidance on how the remaining Priority Axis 4 funds could be spent, as well as the significant ESF funds available, noting that the final local Priority Axis 4 Call will be published in April 2019.

#### UK Shared Prosperity Fund (UKSPF): Next Steps

- 2.18. Following the EU Referendum May 2016, the Government committed to create a new UKSPF to replace ESIF, *“designed to reduce inequalities between communities,” delivering “sustainable, inclusive growth”*.
- 2.19. Work is ongoing in helping government give consideration to how the fund could work when addressing the need to raise both productivity and drive inclusive growth.
- 2.20. It should be noted that LEPs and Combined Authorities will play a key role in working with government to ensure that any future funding model is aligned and supports the delivery of Local Industrial Strategies, which will help prioritise and maximise the long term impact of the UKSPF.
- 2.21. A key task for the LEP is to ensure continuity, with EU funds ending in December 2020 and UKSPF starting in 2021. LEPs will have a key role in shaping and influencing the design of the new fund over the next year.
- 2.22. As part of the work to support Government in their initial thinking and shaping of the UKSPF, a number of soft consultations have taken place over the last two years. The LEP has contributed to all consultations and calls for evidence and, in partnership with the Combined Authority, have developed the following headline suggestions:
- That the value of the UKSPF is of at least equal value to EU and other domestic funding provision (e.g. Local Growth Fund) currently in place, to support the City Region’s growth ambitions.
  - Acknowledging that ESIF funding has been difficult to access and that EU regulations have stopped placed co-ordinating investments, the UKSPF should have a simplified administration to ensure that investments are targeted effectively at the local level.
  - The UKSPF needs to responsive to local needs and to be different and flexible compared to the existing ESIF programme. UKSPF funding should be allocated at a strategic level, allowing local areas to allocate funding to programmes and projects as determined by local need. This could be a key instrument in strengthening and accelerating devolution.
  - The UKSPF should break down the institutional and operational silos seen in the ESIF programme to integrate people, place and business-driven funding. This should also address unnecessary complexity,

bureaucracy, rules and eligibility issues with the aim of delivering the funding within a 'single pot' approach.

- The UKSPF enables long-term objectives for sustainable growth and inclusion through adopting multi-annual financial frameworks and be set over a seven to ten year funding period.

2.23. Government is expected to consult with stakeholders in spring 2019, ahead of announcing the design, structure and quantum of funding in the Budget in the autumn. With the Green Paper expected soon, the Panel are asked to consider the questions included at **Appendix 1** on the shape of the new UKSPF. These questions are based on what we know to date and on principles listed in paragraph 2.22, and will help develop our response to the Green Paper when it is published.

### **3. Financial implications**

3.1. There are no financial implications directly arising from this report.

### **4. Legal implications**

4.1. There are no legal implications directly arising from this report.

### **5. Staffing implications**

5.1. There are no staffing implications directly arising from this report.

### **6. External consultees**

6.1. No external consultations have been undertaken.

### **7. Recommendations**

7.1. That the Panel note the progress made to date and provide any comments.

7.2. That the Panel provide feedback on the shape of the new UKSPF.

7.3. That the Panel provide feedback on how the uncommitted funding under Priority Axis 4 could be spent.

### **8. Background documents**

8.1. None.

### **9. Appendices**

9.1. **Appendix 1** – UK Shared Prosperity Fund: Discussion Questions

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