

# Economy and Enterprise Overview and Scrutiny Committee

20 February 2015

## EU Funding Update



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## Report of Ian Thompson, Corporate Director, Regeneration and Economic Development

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### Purpose of report

1. The purpose of the report is to provide an update to Overview and Scrutiny of the current status of the upcoming EU Structural Funds Programme and views on the current direction of travel.

### Background

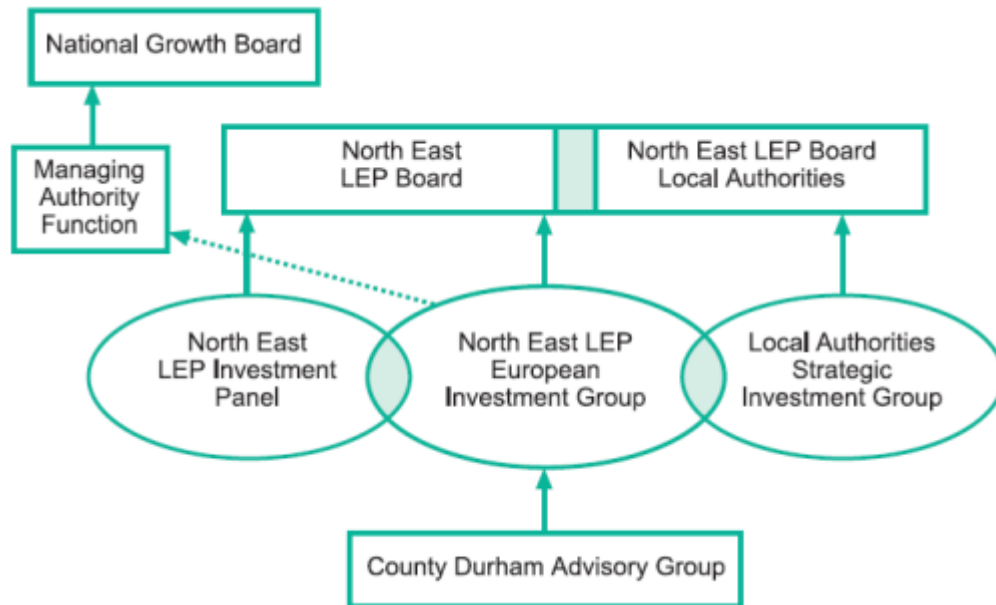
2. The EU Structural Funds programme for 2014-2020 allocates circa £450m for the North East Local Enterprise Partnership (NELEP) area, including £135m for County Durham as a Transition Region. This presents a significant opportunity to support the economic, environmental and social infrastructure of the County in the medium term through the delivery of a range of EU compliant projects.
3. The English EU Programme is not yet operational, as the UK Government remains in negotiation with the EU Commission over the content of the English Operational Programmes (OPs) for both ERDF and ESF. The EU Commission have expressed concerns over the role of LEPs in the allocation of EU Funds as they are essentially private sector advisory bodies and have no statutory constitution.
4. The OPs contain the rules and the parameters of spending that the EU Commission will agree to in the UK. Until these are agreed, it is not possible to give certainty over the eligibility of specific projects, and so programmes of activity still remain in a preparatory phase.
5. In order to prepare the English OPs, the Government had given LEPs a strategic role in preparing broad strategies for proposed investment themes within their areas, based upon the EU Commissions 2020 strategy and EU wide areas of eligible spend. The NELEP has drawn heavily on the economic evidence presented in the Adonis Review of 2012 and engaged in dialogue with a range of partners to set out the strategic direction of the proposed programme. These are contained within the European Structural Investment Fund (ESIF) Strategy, identifying broad areas of spend and likely outputs.

6. The Strategic Objectives of the European Structural Investment Fund (ESIF) Strategy are:
  - Innovation – increased levels of R&D and Smart Specialisations
  - Business Growth – increased trading, entrepreneurship, start up business and private sector access to finance
  - Low Carbon – increased role of low carbon economy and energy generation
  - Inclusive Growth – improve employability and barriers to employment for the most economically vulnerable
  - Skills - improving skills provision and better linking to economic opportunity and the needs of business.
7. The NELEP are now engaged in refining areas of expenditure into more clearly defined programme briefs in anticipation of the series of Open Calls for projects once the OP is approved. The Government are still confident that OPs will be approved in the Spring of 2015, however this appears optimistic.
8. As Durham is a Transition Region and has a sub allocation of £135m, the County Durham Economic Partnership set up a number of work-streams to involve a full range of partners in identifying areas of spend and programme outputs in County Durham, in accordance with the Strategic Priorities set out in the CDEP / Altogether Wealthier Regeneration Statement. This work is ongoing and will inform the content of the Open Calls.
9. The Work Streams are:
  - Innovation
  - Enterprise and Business Support
  - Access to Finance
  - Capital Infrastructure
  - Youth Unemployment
  - Social Inclusion
  - Adult Skills and Employability
  - Low Carbon / Sustainability
10. As a Transition Region, the ERDF resource, focussing mainly on business support will form 65% of the programme, whilst ESF, focussing on skills and social inclusion forms 35% of the programme.
11. The CDEP have organised a wide range of meetings in respect of each work-stream and organised a Social Inclusion Conference to examine potential areas of spending the European Social Fund. Members of the Economy and Enterprise Scrutiny Committee were invited to this meeting, and a number attended.

12. Within the Council; opportunities presented by the emerging EU Programme have been promoted through presentations to senior officers, Cabinet Members and Overview and Scrutiny Committee. Senior Council officers and Members have been engaged in or are leading the various work-streams of the CDEP, to develop and construct a broad programme of activity, to be commissioned once the programme is operational. Senior officers and Members have also been involved directly through engagement with the LEP in ensuring that the shape of the EU Programme will facilitate investment in strategic regeneration priorities in the County, and those of the County Council.
13. In anticipation of the Open Calls for project applications later in the year work is now beginning to “shape up” a number of the agreed spend areas into more defined projects. As the Council may be submitting applications to deliver a number of projects, with significant cost value, a process of internal approval is now in place, prior to any applications for funding being submitted next year.
14. It should be noted that the Council does not have a bespoke allocation of funding or any formal role in approval of projects or management of a programme. However, as secretariat to the CDEP there is a significant influencing role for the Council, maintaining a programme overview and stimulating the development of projects in priority areas, once the programme is operational.

#### **Governance of NELEP area programme.**

15. The proposed Governance arrangements for the EU Structural Funds 2014-20 differ significantly from previous years in that the Government have effectively nationalised the Programme. Rather than a series of regional operational programmes, the new programme will be overseen by an English National Growth Board, with a series of sub committees operating within each LEP area, and with CLG acting as the “Managing Authority”. The sub-committee operating in the NELEP area was referred to as the European Investment Group in the LEP strategy agreed with CLG for the use of EU resources in the North East.
16. Whilst the role of the LEP area ESIF sub-committees will essentially be advisory, projects will require the endorsement of the sub- committee as a condition of grant prior to government departments recommending approval via the national growth board.
17. As Durham is a Transition Region, with a discreet allocation of EU Structural Funds within the overall NELEP allocation; the proposed ESIF sub committee for the NELEP area recognises the County Durham Economic Partnership as an advisory body (referred to as the County Durham Advisory Group). The diagram below is taken from the North East LEP European Strategic Investment Fund (ESIF) document.



18. Within the North East, the ESIF Committee has now been established and is chaired by Paul Woolston, the committee has held two meetings. Cllr Neil Foster represents the Combined Authority and Sue Parkinson, represents the County Durham Economic Partnership, of which she is the Vice Chair. The group have discussed their terms of reference and given early consideration to the potential content of Project Calls, for when the programme becomes operational.

### Current Issues

19. There are a number of issues which have recently emerged within the programme which are hampering the development of firm project proposals. These are:
- Match Funding / Co financing

The Government had indicated that a number of programme areas would be co-financed by the Government, through a series of “opt ins,” whereby local partners can opt to use their EU funds to effectively buy services from Government Departments who would match the EU funding at source. However it has recently emerged that the Government are unable to provide any co-financing for the Youth Employment Initiative and are unable to clarify the levels of co-financing available for other areas of activity. Given the removal of a range of government grants and reductions in Council expenditure, the sourcing of match funding for eligible project activity could become a major inhibiting factor in the progress of the Programme.

- Delays to the Operational Programmes

The delay to the approval of the Operational Programmes in England is causing a delay to project development, as the “rules” of the programme remain uncertain. In particular the lack of clarity over eligible activity within each theme (priority axis) and the output framework, which is what EU grant is effectively paying for; means that project proposals cannot be worked up in fine detail. Once the OPs are approved and Open Calls are made, project proposals will need to be firmed up within a short space of time, should the Open Call time period be limited.

- Durham Dales Leader Programme

The application for a Leader programme for the North Pennine Dales, for £2.4m was initially rejected by DEFRA. The Local Action Group have submitted an appeal, and at the time of writing we are still waiting to hear if it has been successful.

### **The Emerging Durham Programme**

20. As Durham is a Transition Region, with its own allocation within the NELEP total, spend proportions against each of the EU programme objectives for Durham had to be shown separately within the NELEP ESIF.
21. The CDEP is coordinating the formulation of broad spend proposals for County Durham. An initial draft investment plan was approved by the CDEP Board on 24 February 2014 which has formed the basis for the Transition Region element of the LEP ESIF Strategy.
22. Spend proposals for the EU 2014-2020 programme in County Durham are currently being refined through a series of work-streams, conferences and seminars organised through the CDEP. The work- broadly mirror those of the North East LEP with the chair of each CDEP work-stream acting as the Durham representative on the relevant NELEP group wherever possible. DCC officers are involved in all work-streams and in many cases take the lead.
23. A schedule of emerging projects within the CDEP is attached as Appendix A.
24. It is envisaged that when the programme is operational the CDEP will continue to oversee the pipeline of projects within County Durham with regular update reports to the CDEP Board and continued communications with the NELEP.

### **Governance within the Council**

25. As the Council is likely to submit a number of project proposals to take advantage of EU funds it is essential that the Council has an agreed internal approval process to ensure that opportunities are maximised and liabilities minimised, prior to any commitment to matching EU funds is made.

26. EU funds are only available for bespoke projects that fit the eligibility criteria contained within the English Operational Programme and support the objectives within the open calls. Projects will have a defined start and end date, agreed eligible activity and recorded outputs which are agreed with CLG. Within Transition Regions, match funding of 40% needs to be secured by the project sponsor, unless the project has been commissioned through one of the Government Opt ins, in which case there is no match funding requirement. Records of activity, spend and outputs must be kept for up to 10years following project completion.
27. Whilst it is too early to be specific about applications for funding which may be submitted by the Council, emerging project areas where the Council could be involved in delivery include:
  - Business support to SME's
  - Capital infrastructure to support business development
  - Employability / Apprentice support / Youth Employment
  - Support to VCS following transfer of community assets
  - Low Carbon initiatives / Green Deal
28. Appendix A also shows areas of activity (not exhaustive) that could potentially be eligible for EU funding and require further development in line with Council priorities and MTFP requirements.
29. Whilst the programme cannot be used to replace the Council's base budget, lost through government cuts; it is possible to utilise the resource to continue eligible activity that would otherwise be lost, provided this activity can be recast as a bespoke project with the support of local partners.

### **Promoting EU Funding Opportunities with DCC**

30. Obtaining additional finance for projects through the EU Structural Funds Programme, (as well as all other external funding regimes), is a high priority for the Council, which is reflected by the inclusion of the EU Structural Funds Programme in Big Board 2.
31. The EU programme has been well publicised throughout the Council and the County. A series of presentations to Senior Officers, Cabinet Members and Overview and Scrutiny have taken place, to ensure that the Council is well placed to take up opportunities for project funding and to give a strategic lead in the economic regeneration of the County.
32. A number of senior officers from all Service Groupings are now either leading or are actively involved in the relevant work-stream of the CDEP. Council officers are engaged in shaping the areas of investment required in Durham and the NELEP area in the period leading up to an open call.

33. Quarterly briefings with the Leader and relevant Cabinet Members are held to keep them abreast of issues within the programme, as well as links to the NELEP and Combined Authority as they arise. Briefings have also been arranged with the new cohort of MEPs to ensure they understand how funds are being utilised in Durham and the North East.
34. Economy and Enterprise Scrutiny Committee will receive regular reports and updates as the programme progresses in order to scrutinise the direction of travel of the programme and ensure strategic fit with economic issues in County Durham. As the programme progresses and Council led projects become operational, the committee will receive reports on their performance as they form part of the RED performance management framework.

### **Recommendations**

35. Economy and Enterprise Overview and Scrutiny are recommended to:
- (i) Note the content of the report.
  - (ii) Offer views as to direction of travel of the emerging programme.
  - (iii) Receive further reports as the programme progresses.

### **Background papers**

Report of the Corporate Management Team – EU Funding programme 1 October, 2014

Report of Economy and Enterprise OSC – Update on EU Funding programme 30 October 2014.

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**Appendix 1: Implications**

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**Finance** – None

**Staffing** – None

**Risk** – None

**Equality and Diversity** – None

**Accommodation** - None

**Crime and Disorder** – None

**Human Rights** – None

**Consultation** – None

**Procurement** – None

**Disability Discrimination Act** –None

**Legal Implications** – None