CHIEF ECONOMIC DEVELOPMENT OFFICERS' SOCIETY

ASSOCIATION OF DIRECTORS OF ENVIRONMENT, ECONOMY, PLANNING AND TRANSPORT

BIS consultation on 'Development of EU Structural & Investment Fund strategies: preliminary guidance to Local Enterprise Partnerships'

CEDOS/ADEPT Views

May 2013

The Chief Economic Development Officers Society (CEDOS) represents Heads of Economic Development in upper tier local authorities throughout England. Membership includes county, city and unitary Councils in non-metropolitan areas. The Society carries out research, develops and disseminates best practice, and publishes reports on key issues for economic development policy and practice. Through its collective expertise, it seeks to play its full part in helping to inform and shape national and regional policies and initiatives.

The Association of Directors of Environment, Economy, Planning & Transport (ADEPT) represents local authority Strategic Directors who manage some of the most pressing issues facing the UK today. The expertise of ADEPT members and their vision is fundamental in the handling of issues that affect all our lives. Operating at the strategic tier of local government they are responsible for crucial transport, waste management, environment, planning, energy and economic development issues. ADEPT membership is drawn from all four corners of the United Kingdom.

BIS CONSULTATION ON 'DEVELOPMENT OF EU STRUCTURAL & INVESTMENT FUND STRATEGIES: PRELIMINARY GUIDANCE TO LOCAL ENTERPRISE PARTNERSHIPS

Introduction

1. As national organisations whose members are directly involved in LEPs and with considerable experience of EU funding, CEDOS and ADEPT welcome the opportunity to respond to the consultation on 'Development of EU Structural & Investment Fund strategies: preliminary guidance to Local Enterprise Partnerships'. This paper puts forward our overall views and those in response to the specific consultation questions contained within the preliminary guidance. Our views have been formulated in the light of consulting with our members from across the country.

2. We are pleased that BIS has agreed that it is very important for national organisations such as CEDOS and ADEPT and for local authorities and other stakeholders with direct involvement in and operational experience of EU funding, to have a proper opportunity to take part in the LEP Guidance 'consultation'. Nevertheless, in putting forward our response, we continue to hold strongly our previously expressed view that the decision not to proceed with a formal consultation on the Partnership Agreement and instead to "issue outline guidance to LEPs that would effectively serve as a consultation", is unsatisfactory.

3. During the informal consultation in 2012, the Government stated unequivocally "when the UK Partnership Agreement has been drafted, the UK Government will then open a formal 3 month consultation on the proposed content"[1]. We consider that HM Government should meet this commitment – not least because Member States are required to draw up Partnership Contracts in cooperation with "competent regional, local, urban and other public authorities; economic and social partners; and bodies representing civil society, including environmental partners, non-governmental organisations, and bodies responsible for promoting equality and non-discrimination"[2]. Member States are required to involve all of these partners in the preparation of Partnership Contracts. For the UK, we are not convinced that this requirement can be met by relying solely on LEPs to arrange this.

Overall views on the preliminary guidance

4. We welcome the EU Regulation to align the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Funds (EMFF) for the 2014 - 2020 funding period 'Common Strategic Framework'. This will facilitate achieving integrated investment plans for LEP areas and should enable administration to be simplified with assessments, payments, audit and evaluation streamlined. It should also maximise impact on key issues such as entrepreneurship, skills development, job creation and business growth.

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[1] Partnership Agreement: Delivery of Structural Funds, Rural Development Funds and Maritime and Fisheries Funds in England – informal consultation BIS March 2012
[2] European Commission, 22.4.2013, COM(2013) 246 final, 2011/0276 (COD)

5. There is, however, concern at the intention to include only a limited part of the European Agricultural Fund for Rural Development in the Structural and Investment Fund package. This will limit the ability of rural areas to align funding and as a result limit their impact. In our view, there is a strong case for significant EAFRD funds, including those for LEADER to be channelled through local EU investment strategies. This would enable LEPs to develop a more comprehensive strategy for their areas, increasing impact and providing for efficiencies in costs and administration. This can be achieved without comprising the local response and delivery of the LEADER/LAG approach, which we strongly support.

6. A number of our members have indicated their difficulty in responding at this time to at least some parts of the consultation in the absence of indicative allocations for LEP areas. In this context, the size of the overall allocation is an issue on which we would ask for reassurance that the funding allocations to LEP areas in England will not be adversely affected by:

- the allocations to the devolved administrations, which are seeing an uplift in comparison to the EU's allocation formula;
- any top-slicing for national funding.

Specific questions

What are your views on the proposed delivery model?

7. The intention is for a single Growth Programme for England with:

- Government to be responsible for the administration of the funds as managing authority; and
- LEPs to be responsible for designing and delivering strategies on how best to use the funding and submitting them to Government.

8. Each LEP area will receive a notional allocation from the funds to be spent in line with a set of overarching priorities set out in the EU regulations. LEPs will be responsible for ensuring outcomes are delivered by working with a range of local partners.

CEDOS/ADEPT views:

9. **Notional allocations to LEP areas** - We await information on the methodology that is to be used. We urge the Government to ensure that the allocation process is carried out in a clear and transparent way. In addition there are a number of points/questions that our members have raised:

- *Notional allocation of outputs as well as funds?* The Guidance states that LEPs will be responsible for ensuring outcomes are delivered - can the Government clarify whether there will also be a notional allocation of outputs that each LEP will be expected to meet and which will contribute towards the outputs of the national Partnership Agreement?

- *Certainty of funding* The preliminary guidance states that each LEP will receive a notional funding allocation for the seven years 2014-2020. However, it also states that the notional allocations will be subject to annual review from 2017 onwards. Whilst we appreciate that the UK will be required to meet EU spending and performance targets throughout 2014 – 2020, in their covering letter, the Ministers make the point that long-term stability is an essential ingredient of a successful EU programme for 2014-2020[3]. We agree. In order to manage delivery and ensure outcomes are achieved, LEPs will need certainty of funding for the full duration of this seven year period;

- *Proportion of Structural Funds to be devolved* Whilst we note that *most* of the Structural Funds will be devolved to LEPs, we do not yet know what percentage of each Fund will be devolved and whether this will vary between the Funds. In relation to this:

  - what flexibility will there be for LEPs to influence the make-up of their notional allocations?

  - will LEPs be in a position to influence the funds not devolved to better ensure they complement the funding devolved to LEPs?

- *Capital - Revenue split* The Guidance does not make reference to capital/revenue percentages under the funds, which is of considerable importance to the way the funds can be used and the activities that can be supported. Will LEPs, local authorities and other key stakeholders be able to influence the split?

10. **Local reporting and accountability** – The preliminary guidance states that the Structural and Investment Fund Growth Programme will be overseen by a National Growth Board to ensure that money spent through the Programme delivers economic impact, achieves its performance targets and provides value for money. In our view, as part of this, there will need to be local as well as national reporting and accountability.

Are there any additional freedoms/flexibilities that would enable LEPs to deliver improved outcomes at reduced cost and what would these freedoms/flexibilities be?

11. The Government considers that the delivery model being put forward offers Local Enterprise Partnerships a high degree of freedoms and flexibilities. However, it acknowledges that there might be circumstances where more freedoms/flexibilities would deliver more effective outcomes at a reduced cost and is interested to know what these would be.

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[3] Letter to LEP Chairs from the Minister of State for Business & Enterprise and the Minister for Employment 12 April 2013

CEDOS/ADEPT views:

12. Until further clarification regarding the amount of EU funding that will be held centrally for nationally directed programmes is forthcoming and details of the size of the Single Local Growth Fund and which elements of nationally held funding streams will be included in it are known, it is difficult to respond comprehensively regarding freedoms and flexibilities. However a number of points/queries have been raised by our members, which are set out in the following paragraphs.

13. As an overall point, it will be important that LEPs have the maximum possible freedom and flexibility to access funds to undertake initiatives to meet the specific needs, circumstances and strategic priorities of their areas. In this context, it will be important that the Departments acting as managing authorities:

- do not add restrictions on the use of funds in addition to the Regulations adopted by the European Commission;

- adopt a light touch approach to ensuring that growth strategies are compliant with Europe 2020 and provide LEPs with the space to design strategies which respond effectively to the economic and business needs of their areas.

14. ***Intervention rates*** - It will be important for LEPs to have the flexibility to vary the intervention rates for different priorities to enable them to respond effectively to the distinctive needs and circumstances of their areas. Early clarification of how much flexibility each area will have within the programme will be helpful - for example will the 60% the ERDF transition areas are required to spend on the 4 main themes be totalled up at a national level or will LEPs need to monitor this?

15. ***The importance of local decision-making*** - A concern is how in practice the devolved approach will operate. For example there is currently no clear decision-making role for LEPs other than setting high level priorities. While the need for an efficient contracting and delivery system is recognised, a greater level of local determination is required.

16. It is essential that programmes have the scope to offer local flexibility and involvement in decision-making and strategic guidance. Significant work has gone into a detailed understanding of local economies, which must not be lost in developing priorities at a national level. This goes beyond providing a localised focus for specific interventions determined nationally. There must be local involvement in determining what the specific interventions should be.

17. In our view it is imperative that decisions on investments are made locally, using the experience and knowledge of local partners. Local decision-making allows programmes to be tailored to meet specific local needs; avoids duplication of investment and activities; and enables local programmes and

initiatives to be aligned to maximise impact and added value[4]. There is a need to avoid creating national processes that determine outcomes and focus on the local strategic fit/impact that drives investment.

18. LEPs should also have an important role in the appraisal process to enable local strategic fit to be taken fully into account, with the role of the managing authority being more focused on checking robustness of applications, eligibility and outputs. LEPs should also have an ongoing project management and liaison role. This local involvement is the best way to ensure that a project is on track and if there are challenges, to identify them early and manage them.

19. ***Match funding*** – The preliminary guidance states that some of the match funding required by EU rules will come from Government "not least through the new arrangements for the Single Local Growth Fund". Given that the Single Fund will not come on stream until after April 2015 and that its overall size is uncertain to say the least, to what extent does the Government envisage match funding for LEP projects being provided from other national sources?

20. The preliminary guidance also states that the Government is keen to see the private sector being a source of match funding. Given that individual businesses or groups of businesses will understandably focus on how projects directly benefit them:

- can Government offer views on how to encourage/incentivise their involvement?

- what flexibilities will there be in respect of the percentage of private and public sector match?

21. ***Reducing bureaucracy & administrative hurdles*** – Bureaucracy is reported to be a major issue with the current programme with, for example, considerable frustration at the length and transparency of the application, appraisal and approval processes. The new programme offers the opportunity to streamline processes and reduce unnecessary bureaucracy and administrative hurdles. In this context we would like to highlight the following:

- it is essential that administrative hurdles are reduced to encourage more organisations, particularly ones from the private sector, to apply for EU funding. This will help to ensure that local areas are able to fund the most appropriate activities rather than only those from organisations with the capacity to handle the bureaucracy involved;

- the ability to combine Funds is welcomed. However if separate application forms still have to be filled in for each Fund this will create unnecessary bureaucracy and add costs to the application process. There should be a single application form to ensure that projects that cross over ESF, ERDF and EAFRD, e.g. training schemes involving capital investment and

[4] Strategic unitary and upper tier local authorities, for example, have significant capital programmes and schemes e.g. digital infrastructure, skills investments - which should fit well with the EU SIF strategies and deliver added-value and quick results.

targeted towards rural areas, can be supported as efficiently and effectively as possible;

- developing more integrated ways of working across funds must be beneficial - currently, the separate ERDF and ESF Operational Programmes do not lend themselves to joined-up working and have stifled enterprise development opportunities;

- in line with the European Commission's agenda for simplification, the introduction of flat rates and lump sums to cover indirect costs rather than evidenced claims would be beneficial.

22. ***Technical assistance and support from the new Growth Teams*** - Access to technical assistance and vital pre-bidding advice and support is required. On this there is a need for further information on:

- the process for allocating technical assistance funding and whether it will be 100% funded for LEPs;

- how the new growth teams will operate across the managing authorities and the level of support they will be able to offer local areas; and in order to support wider potential collaborative projects, to know now what geographic coverage the teams will provide.

Priorities for investment - What are the views on the likely priorities for local areas for 2014-2020 and how well do the priorities for investment set out in Annex B of the guidance meet the specific needs of local areas?

23. The preliminary guidance states that a set of top priorities for the Growth Programme has been established based on the Europe 2020 goals, the spending levels set out in the EU regulations and the EU structural reform agenda to deliver growth and jobs. They are: innovation/research and development, support for micro, small and medium sized enterprises, the low carbon economy, skills, employment and social inclusion.

CEDOS/ADEPT Views:

24. Whilst it will be a matter for individual LEPs to indicate the likely priorities for their areas for 2014 – 2020, at this stage we can put forward some overall messages from the soundings we have taken with our members.

25. For most of the members we have received views from, the top level priorities seem to align well with their local priorities for growth, although much will depend on the level of the notional allocations. However, concern has been expressed at the likely impact on individual local growth strategies of:

- the scope for flexibility being significantly constrained in areas classified as more developed regions by the concentration requirements for both ERDF and ESF – to what extent will LEPs potentially be able to use their allocations across all of the priority areas contained within the Structural and Investment Fund Regulations, including ones not explicitly covered in the Growth Programme guidance?

- the continuing failure of the system to recognise that within some LEPs to be classified as more developed regions, there are areas at NUTS3 level with a GDP below that of 90% of the EU 27 average[5];

- the difficulty in deciding priority actions being caused by a lack of clarity about the availability and flexibility of match funding, particularly for ESF and EAFRD activities;

- the limitation on providing improved physical infrastructure, including the development of employment land and public realm - will there be flexibility in the programme to allow for this type of activity? For business growth, infrastructure improvements can be needed for all enterprises and could be achieved by allowing greater flexibility within the SME competitiveness priority or by allowing infrastructure to support innovation to include non R&D specific investment.

What are your views on the Government's approach to financial instruments and do you have any alternative proposals?

26. The European Commission has said it wants Structural Funds programmes to make use of a wider range of financial instruments in 2014-2020. The preliminary guidance states that Government is minded to ringfence a proportion of the Structural Funds budget before the distribution of LEP notional allocations, for a national fund to deliver equity together with loan and mixed investments. This would either be a single fund with geographical targets or a sub-national fund-of-funds, which could build on current JEREMIE3 structures. The guidance indicates that either option would involve local delivery of funds, with funding targeted where the lack of availability of private sector finance is most acute and that this approach would also allow significant match funding to be put in place.

27. Loan funds could be set up locally by a Local Enterprise Partnership using part of its allocation and finding local match or LEPs could voluntarily pool allocations into a sub-national fund-of-funds covering a group of LEPs, which might be large enough to secure significant match funding at national level. The guidance also suggests that LEPs may also want to consider using financial instruments such as JESSICA to establish urban development funds or revolving loan funds matched with institutional investment to support the retrofitting in local social housing developments with energy efficient measures, with a view to creating jobs, addressing fuel poverty and boosting demand for green technology. Local impact funds might also support the social economy and provide investment readiness support.

CEDOS/ADEPT Views:

28. From the soundings we have taken, whilst some of our members have broadly welcomed the Government's approach, others have said that it is

[5] For example in the South East LEP area, there are 4 areas with a combined population of over 1 million that have a GDP of below 90% of the EU 27.

difficult for them to be definitive at this stage given the lack of knowledge on what allocations LEPs will receive.

29. We recognise that achieving critical mass is necessary to make financial instruments viable and maximise alignment with other forms of private sector investment. With a national fund the key question will be how the Government could ensure that it would be able to meet effectively the needs of local areas, with their different mixes of priority sectors and sizes of businesses. In this context, a sub-national fund-of-funds seems more likely to be appropriate.

30. A number of our members have highlighted the importance of local funds that can be tailor-made to address specific local business needs, whether on an individual LEP basis or through joint working between a number of LEPs. However, until the notional LEP allocations are known, the viability or otherwise of local or other sub-national options cannot be determined. Match funding will, of course, be an issue and in this context the point has been raised about the threshold of £80 million set by the European Investment Bank before it will provide match funding. There is the important question of whether the proposed national top-slicing would be available to provide match funding for LEP/groups of LEPs options.

31. The suggestion in the preliminary guidance that LEPs may also want to consider using financial instruments such as JESSICA raises the question of the extent to which they are geared up to develop them. Financial instruments such as JESSICAs are complex and can be expensive to develop. In this context, it will be important to provide LEPs with better information and potentially provide training to help them evaluate, set up and use financial instruments. Particularly as regards SMEs it will also be important that the use of financial instruments is supported by good quality and relevant business advice.

What is your view of the timeline set out in the guidance and do you see it posing any problems for LEPs in your area?

32. In addition to the questions posed in the preliminary guidance, we asked our members for views on the timeline set out in the guidance. This requires LEPs to have their Structural and Investment Fund Investment Strategies in place before the negotiations with Government over their full strategic plans for the Single Local Growth Fund are complete; to submit their first draft Structural and Investment Fund Investment Strategies to Government by the end of September 2013 and their final strategies in January 2014. The Government acknowledges this is tight timing but points out that it is driven by the need for the UK to submit a Partnership Agreement to the European Commission before the end of 2013.

CEDOS/ADEPT Views:

33. Views from our members vary with some considering the timeline achievable, although tight, and others indicating it will be challenging for LEPs in their areas - with the time required to involve the wide range of stakeholders envisaged by the guidance in an effective and meaningful way, being particularly highlighted.

34. A critical factor will be when the notional allocations are made known. This will be crucial in enabling LEPs to make an informed consideration of the split of funds across the priority themes. It is essential that further clarity is provided by the spending review in June and the publication of more detailed guidance.

35. It is recognised that due to the EU timescales, the development of the Single Growth Fund and EU funding could not be fully aligned but the fact remains that that the Structural & Investment Funds could be available to spend up to a year before the Single Local Growth Fund. As this is likely to be one of the main sources of match funding, some LEPs may be restricted in their ability to spend any significant amounts of the Structural & Investment Funds before the Single Local Growth Fund becomes available. We would like to be reassured that Government will take this into account when reviewing the totals spent in the first part of the programme.

36. We are concerned that the indicative EAFRD allocations to LEPs will be later than those for ESF & ERDF. We would like to ask why this is the case and why the strategies for community-led local development spend cannot be facilitated sooner? If this situation also applies to funding to existing Local Action Groups (LEADER) and Fisheries Local Action Groups under the next programme, it will put them under unnecessary strain given most are due to end by September 2013. Whilst the transition money will help, it is likely to fail to retain expertise, and perhaps to keep the LAG partnerships themselves in place.