
Report to: Cabinet

Date of Report: 27th February 2014

Subject: European Structural and Investment Funds Strategy 2014-20

Report of: Director of Built Environment **Wards Affected:** All

Is this a Key Decision? Yes **Is it included in the Forward Plan?** Yes

Exempt/Confidential: No

Purpose/Summary

To present the final version of the European Structural & Investment Funds Strategy 2014-20 for Liverpool City Region, and authorise next steps with commissioning, investment and delivery.

Recommendations

Cabinet

1. Endorses the EU Structural & Investment Funds Strategy 2014-20 for Liverpool City Region
2. Requests the Director of Built Environment to assess Sefton's readiness to deliver the new programme, and identify appropriate projects for consideration under the EU programme

How does the decision contribute to the Council's Corporate Objectives?

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		/	
2	Jobs and Prosperity	/		
3	Environmental Sustainability	/		
4	Health and Well-Being		/	
5	Children and Young People		/	
6	Creating Safe Communities		/	
7	Creating Inclusive Communities		/	
8	Improving the Quality of Council Services and Strengthening Local Democracy		/	

Reasons for the Recommendation(s):

To alert members to the funding opportunities presented by the £190 million spending programme for Liverpool City Region.

What will it cost and how will it be financed?

There are no direct financial implications at this stage for the Council’s Revenue or Capital Budgets arising from this report. The strategy outlined in this report has the potential to fund investment in the Liverpool City Region to the extent of £190m over the next 7 years. However the capacity to draw down such sums is dependent on local match funders, including Sefton, being able to contribute to this investment from their own resources.

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal None	
Human Resources None	
Equality	
1. No Equality Implication	<input checked="" type="checkbox"/>
2. Equality Implications identified and mitigated	<input type="checkbox"/>
3. Equality Implication identified and risk remains	<input type="checkbox"/>

Impact on Service Delivery:

N/a

What consultations have taken place on the proposals and when?

The Head of Corporate Finance and ICT Strategy (FD2793/14) has been consulted and notes from the report at this stage there are no direct financial implications at this stage for the Council’s Revenue or Capital Budgets. However possible benefit for the Council exists as there is potential to fund investment in the Liverpool City Region to the extent of £190m over the next 7 years. Capacity to draw down such sums is dependent on local match funders, including Sefton, being able to contribute to this investment from their own resources.

The Head of Corporate Legal Services (LD 2099/14) has been consulted and has no comments to make.

Are there any other options available for consideration?

Not applicable.

Implementation Date for the Decision

Following the expiry of the “call-in” period for the Minutes of the Cabinet/Cabinet Member Meeting

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Background Papers:

Liverpool City Region Local Enterprise Partnership (2014), EU Structural and Investment Funds Strategy 2014-2020

Background

1. Cabinet Member – Regeneration & Tourism received a report on 20th November 2013 introducing the draft EU Structural & Investment Funds Strategy (ESIF) for Liverpool City Region (LCR).
2. As instructed, officers supplied comments on the draft Strategy to the Local Enterprise Partnership (LEP), in writing and via consultation workshops.
3. A revised EU Strategy document was approved by the LEP in January and submitted to Dept for Business Innovation & Science (BIS) by the deadline of 31st January 2014.
4. The purpose of this report is to summarise what has changed in the Strategy since November, to make an appraisal of the submitted Strategy, and to set out next steps as we move from policy to implementation.

The next European Programme 2014-20

5. The new European Programme for Structural Funds began 1st January 2014. However (as is normally the case), the European Commission and the UK government will not have concluded their Partnership Agreement to release funds until the second half of the year, so implementation cannot start yet.
6. During 2014, the following tasks have to be completed:
 - Government agrees the Strategy with most LEPs in March
 - For the remaining LEPs, any fundamental concerns have to be addressed and eliminated by April
 - The financial table of the Strategy is binding once agreed and requires government approval to vary
 - After March, government agrees a Memorandum of Association with each LEP detailing local implementation arrangements (this is back-to-back with the UK government's negotiations with the European Commission on the Partnership Agreement).
 - The LCR LEP expects to have agreed its commissioning policy and be issuing Calls for Proposal by summer, with earliest start dates around September 2014 (ESF) or January 2015 (ERDF)
 - The government will monitor spend year by year to 2017, which will trigger the decision to release the UK performance reserve in 2019 (7% of the total programme value is held back to reward compliance with forecast spend in the first three years).
7. Members may be aware that Rotherham BC (on behalf of Sheffield and Liverpool city regions) is taking the Secretary of State for BIS to Judicial Review on the grounds that he misallocated the UK's EU funding to former Objective 1 regions. The allocation to Liverpool City Region is 40% below what was received in 2007-13, well below expectations. This hearing was concluded in late January 2014. Members will be advised of the judgement as soon as it is made available.

The submitted Strategy for Liverpool City Region

8. The Strategy as submitted end-January does not differ significantly from the draft version reported to members in November 2013.
9. The priorities are unchanged:
 - Increase GVA
 - Grow the business base
 - Create jobs
 - Help residents into employment
10. These priorities are addressed in five themes of “portfolios” drawing together each of the Structural Funds around a common objective:
 - Blue/Green Economy
 - Business Economy
 - Innovation Economy
 - Inclusive Economy
 - Place and Connectivity
11. Tables for each portfolio supply brief overviews of indicative strands of eligible activity, with various examples. These have not changed significantly since the previous draft.
12. The main changes to the submitted Strategy are in the sections on match funding and delivery.
13. In terms of match funding, the revised Strategy reflects discussions at the LEP about the role of national “opt-ins” i.e. the use of national match funding to meet shortfalls in local match. The Strategy is now recommending use of the following national opt-ins:
 - Manufacturing Advisory Service (£300k by 2016)
 - Growth Accelerator (£150k by 2016)
 - UK Trade & Investment (£700k by 2016)
 - Skills Funding Agency (£24m by 2020)
 - DWP (£5m by 2020)
14. The LEP has not yet concluded its appraisals of three potential Financial Instruments, but appears confident each can proceed:
 - JESSICA (property investment fund, managed by Chrysalis Fund)
 - JEREMIE (SME investment fund, managed by MSIF and/or NW Fund)
 - Local Impact Fund (social enterprise investment fund, with support from Big Society Capital and other social investors).
15. As regards delivery, the EU Strategy seeks to take account of the proposed Combined Authority. If approved, the Combined Authority would be designated an “Intermediate Body”. This is an EU term for a sub-national body to which the national managing agency can delegate certain tasks. It safeguards Liverpool City Region against diversion of funds at a national level

(see para 7 above). The Combined Authority would also be the default accountable body for any EU funding received for onward distribution.

16. The LEP is proposing to evolve management arrangements for the new programme in line with the recently released European code of conduct on partnership in EU programmes (January 2014). This will ensure that as well as public and private sectors being represented on the LEP, there will also be community, voluntary, environmental and social sector representatives, and the relevant government departments. To this end, the LEP will initiate an EU Strategic Board with this new and broader membership, which will replace the LEP Board's EU Post-13 Sub-Group.

Appraisal

17. The report to Cabinet Member – Regeneration & Tourism in November 2013 expressed support in principle for the European Strategy as a statement of the city region's ambitions. This support can be extended to the final version submitted to government.
18. However, issues raised in the November report are not fully resolved:

- (i) Consultation and engagement

The LCR LEP is still developing its relationship with the local authorities, and it is not satisfactory that local government is treated as one of a long list of consultees. The local authorities are a strategic body, provide democratic accountability, and invest in local services. They will also inherit much of the risk of implementing the new programme.

However, in preparing the European Strategy, the LEP found itself with little capacity for a longer, deeper engagement with the local authorities. As a result, there was limited communication, and some decisions were made in isolation. We would expect that the new consultation arrangements for a broader partnership supervising the implementation of the programme will overcome these problems.

- (ii) Due diligence

A risk assessment of the affordability and deliverability of the new programme was left very late in the development of the Strategy, and in some areas appears to be incomplete.

The ESF programme presented most issues in terms of due diligence. Until a week before the Strategy was submitted to the LEP Board for final sign off, over half the ESF programme was still under review and subject to sizeable changes in the allocation of funds. Levels of match funding and ESF for each strand and procurement route are unclear or require further justification. It is also curious that the largest allocation of ESF – £29 million to the Local Employment Programme, an

alternative to national opt-ins – is not even mentioned by name and is invisible in the financial table. There is a serious lack of transparency when the six local authorities are being asked to co-invest upwards of £19 million of their own funds in the Local Programme.

These are basic responsibilities of due diligence. The consequence of not undertaking them now is that risks will be discovered later. But in a few years, partners will be under pressure to meet targets or return grant (see para 6 above). Therefore the LEP, and Sefton members and officers engaged in the commissioning of the new programme, must attend to all outstanding issues of risk assessment and mitigation.

In particular – and this joins the two issues of consultation and due diligence – the LEP should be encouraged to adopt a model of “co-commissioning” with the local authorities in those strands of the new programme which rest on local match and organisation, respecting the Councils’ unique position as local, responsive and accountable champions for economic improvement.

(iii) Performance

The revised Strategy has not significantly changed total outputs, so they remain surprisingly low for a programme of this nature:

- Of the total ERDF worth £112 million, more than half is going into activities which do not create jobs
- The overall programme spend of £190 million will lead to just 2,000 jobs being created
- In seven years, the four “growth sectors” account for only 200 jobs.

The reasons given by the LEP (restrictive output definitions, quality rather than quantity) are not sufficient to account for the variation from previous regeneration investments in the city region. It appears that they are the result of a policy preference to invest in capital intensive growth (innovation, private sector-led infrastructure) rather than labour-intensive growth. While this is an ongoing debate in local economic development, it is important that any co-investment by the local authorities in the new programme adequately balances output and employment, to maximise the value of the programme for our communities.

The next steps

19. In the next six months, officers will support the LEP in the further refinement of the new programme.
20. An initial assessment of where Sefton’s priorities for economic growth, worklessness and the revival of town centres can be met suggests the following strands in the new programme are relevant and attractive, all of which require collaboration at city region scale to be accessed:

- a Local Employment Programme (based on the six local authority employment services delivering or commissioning provision for unemployed young people and adults)
 - a Business Growth programme (driven by the LEP and the six local authority economic development teams as “growth hubs” for direct or commissioned services)
 - an Energy Efficiency programme for domestic and commercial premises (based on the successful REECH partnership for which Sefton is accountable body, along with the six local authorities and their RSL partners).
 - investment and development opportunities arising from ongoing studies into:
 - ✓ Dunningsbridge Road Employment Corridor
 - ✓ Bootle Office Quarter & Town Centre
 - ✓ Crosby Town Centre, and
 - ✓ Southport Seafront, Town Centre and Business Park.
21. A further report will be provided to members detailing the readiness of Sefton to take part in the new programme including staffing capacity, availability of match funding, governance, and delivery arrangements. Individual projects will also be brought to members for approval.
22. Finally, it should be noted that the 2007-13 EU programme continues to offer late funding opportunities as resources are recycled. They are of particular value because they bridge the gap before the new EU programme starts to spend in 2015. Current funding streams most closely aligned with Sefton’s priorities include:
- Energy efficiency and retrofit in older buildings (a dependable method for absorbing unallocated ERDF), and
 - Tackling worklessness through support for entry-to-employment (an SFA bidding round has opened).
- Members will be advised of progress with these applications.