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Update on future EU funding 2014-2020

Purpose of report

For discussion and direction.

Summary

This report provides the context for the two external speakers addressing the Board meeting: Sue Baxter, Deputy Director of EU Programmes, Economic Development Directorate at the Department for Business, Innovation and Skills (BIS); and Kenroy Quellennec-Reid, the Senior Financial Engineering Manager at the Greater London Authority.

The report also updates Board Members on recent activity and setting out proposals for next steps.

Recommendation

To discuss next steps arising from recent LGA activity.

Action

LGA officers to take forward Member recommendations.

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Update on future EU funding 2014 – 2020

Purpose of report

1. This report aims to provide the background for a Board discussion on two key issues which members identified at the last Board meeting:
 - 1.1. LGA lobbying activity to secure the local delivery of EU funds.
 - 1.2. Information on the innovative use of EU funds to secure local growth.
2. Two external speakers have been invited to update members on these issues.

EU structural funds 2014-2020

3. Worth up to £8 billion, EU structural funds should play a significant contribution to local partners' efforts to bring growth to local areas. The LGA's continued lobbying for the devolution of the delivery of EU structural funds for 2014-2020 has seen some real success in recent months. Our lobbying has consistently called for EU funds to be joined up and locally responsive, recommending funds are managed locally, free from overly bureaucratic rules, integrated and aligned with other sources of regeneration funding.
4. LGA members have been lobbying hard to achieve these objectives including:
 - 4.1. Influencing Whitehall by developing key policy asks of Government for EU funds to be devolved. An LGA brief, (attached at **Appendix A**), on delivering future EU funding programmes, highlights the LGA policy asks. Meeting with relevant Ministers, publishing proactive reports, organising roundtables with lead Whitehall officials, contributing to match funding work, and securing 2 local government secondees into Department for Business Innovation and Skills (BIS) EU funding team.
 - 4.2. Influencing Brussels by developing key policy asks from Brussels for EU funds to be devolved through lobbying UKREP, Members of the European Parliament and the European Commission.
 - 4.3. Working with councils throughout our lobbying, and evidence basing our work where appropriate.
5. In November 2012, the Government published proposals to align a significant amount of spending decisions on EU structural funds for the 2014-2020 to LEP areas. The proposed EU growth model for England includes:
 - 5.1. An "**EU Growth Programme**" to bring coherence to the objectives of four EU funds where they overlap – European Regional Development Fund (ERDF), European Social Fund (ESF), some parts of European Agricultural Fund for Rural Development (EAFRD) and alignment with European Maritime and Fisheries Fund (EMFF). Priorities are: innovation; SME competitiveness, skills; low carbon and employment.

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- 5.2. An **EU Growth Programme Board** made up of Government, European Commission, and relevant stakeholders to provide oversight. In terms of management and day to day running of each of the funds, the respective managing authorities within Whitehall will manage the administration, compliance with EU regulations and oversight.
- 5.3. Funding would be aligned with **Local Enterprise Partnership (LEP) designed EU investment prospectuses**. They would have notional seven year allocations which would be reviewed / adjusted according to performance. LEPs would be expected to collaborate with each other to increase scale and flexibility of investments.
- 5.4. The European Commission introduced **new mechanisms** to facilitate local and sub-regional plans known as Integrated Territorial Investments (ITIs) – providing places with levers through devolved funding, Community Led Local Developments (CLLD) – delegated decision making to local partnerships, and Joint Action Plans (JAPs).
- 5.5. The EU requires the UK to draw up a **Partnership Agreement** setting out how the Funds will be deployed to bring about sustainable jobs and growth.
6. The Government's proposal is a significant shift from a position where EU funding delivery was through national and regional programmes. The Government set out these proposals at a series of roadshows across England (November to December 2012), attended by a wide range of local authorities and other stakeholders.
7. A formal timetable has not been set out by Government, but it is anticipated that:
 - 7.1. Guidance for LEPs will be published in the Spring.
 - 7.2. LEP growth prospectuses to be completed in Autumn/Winter 2013, although the Government expects local partners to start developing their thinking now.
 - 7.3. Final approval in mid-2014, with go-live mid to late 2014.
8. The move to local delivery was welcomed by the LGA as a good direction of travel, but with an acknowledgement that much detail needed to be negotiated. During 2013, this must be our focus as the funding package detail is negotiated in Brussels and Whitehall.

Recent developments - future negotiations on delivery

9. As the principles of localism have been won, the LGA's attention now needs to focus on working with our member authorities and with the relevant Whitehall departments on the detail of how a devolved EU funding system will work at a LEP area level.
10. To take this forward, the LGA launched a report in January 2013 to offer a focus for the delivery negotiations. The report, EU funds and Local Growth, is attached at **Appendix B**. It was produced by Shared Intelligence and identifies a number of key questions for discussion over the coming months, plus a series of recommendations, aiming to inform the detailed thinking that local and national partners will need to undertake in determining

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a model that delivers maximum local impact. It also features evidence from councils on their innovative use of funds. The full report can be accessed here:

http://www.local.gov.uk/c/document_library/get_file?uuid=6a69043b-3003-484b-aa2a-0a5126c6e931&groupId=10171.

11. The report makes nine recommendations to make EU funds secure maximum benefits for local communities and economies. These have been offered to BIS as the focus of central/local discussion on the future of structural funds in 2013. They are:
 - 11.1. **Recommendation 1 - Devolution**: Priorities should be set and decisions taken at the most appropriate level. Local partners should be able to influence investment decisions, and this should include joint commissioning national programmes at the local level.
 - 11.2. **Recommendation 2 - Local responsiveness**: Local partners should have the flexibility to shape EU investment locally, taking decisions on the allocation of EU funds, the approval/rejection of projects, monitoring and overseeing the funds.
 - 11.3. **Recommendation 3 - Democratic accountability**: This should be enshrined through providing a leading role for local councils, and providing public sector partners, local communities, businesses, and the third-sector influence over EU spending strategy and decision-making.
 - 11.4. **Recommendation 4 - Integration with other funding**: Councils and LEPs need to be able to use EU funds in a smarter and more integrated way across EU funding streams and in conjunction with national and local funds, as part of LEP growth funds.
 - 11.5. **Recommendation 5 - Application of new mechanisms**: Some LEPs will find that ITIs, CLLDs and JAPs are an appropriate financial mechanism to deploy EU funds. They should be given the freedom to pursue these tools and financial mechanisms such as JEREMIE, where they will support local growth plans.
 - 11.6. **Recommendation 6 - Creative use of match funding**: LEP funding needs to be “clean” to provide EU match funding. Partners are keen to use and explore resources creatively including their own funds and new sources such as concessionary public works loan rate and new public and private match funding, and the government should facilitate this through local growth teams.
 - 11.7. **Recommendation 7 - Stability**: Local partners should have a seven-year allocation of funding, with limited change over that period to ensure a strategic approach to growth over that period.
 - 11.8. **Recommendation 8 - Simplification and support**: The proposal to simplify funding applications are very welcome, and should be matched with a greater emphasis from the proposed Local Growth Teams on supporting project development rather than focussing on compliance.

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11.9. **Recommendation 9 - Flexibility to work across new economic geographies:**

Councils are keen to work with LEPs across new economic areas promoting multi-sectoral, multi-level partnerships where this is the most effective approach. Councils should be able to engage flexibly with EU funds through national initiatives, locally within their LEP and through collaborating across LEPs.

12. The report was launched at the LGA EU Funds and Local Growth conference on 22 January 2013. LGA leaders set out the proposals for detailed discussions in 2013. Michael Fallon MP, Minister for Business and Enterprise, presented Government's view on local EU funding models. He accepted many of the principles highlighted in the report and agreed that these issues should be the focus for further negotiation between national and local government.

13. Councils have expressed mixed reactions from the proposals. Key issues of concern include:

13.1. Councils are pivotal in building capacity of LEPs, and making them a success, and so must be integral to the solution.

13.2. All local partners are critical in shaping EU investments - councils, universities, the third sector, businesses, and national agencies – rather than LEPs alone.

13.3. Many local areas are keen to develop their own plans for a devolved funding model, and are voicing concern at Government's lukewarm view on it ITIs (i.e. more flexible local delivery structure).

13.4. Some EU funds, particularly ESF, will remain nationally driven, with limited local influence.

13.5. Extent of democratic oversight on national and local governance boards.

13.6. Whitehall managing EU funds separately may compromise integration of funds locally.

Next steps

14. The following actions are proposed for the next few months.

15. The LGA wrote to councils in January to find out what local ideas for delivery models are emerging through discussions with partners. Board members may wish to highlight what is happening in their local areas.

16. Following the recommendations and analysis of the LGA commissioned report (above), the LGA offers to bring together, through a series of focused workshops, lead Whitehall officials and a group(s) of councils to ensure local practice helps to develop the detail of new models. These could be developed from February, and would be used to influence the development of the UK Partnership Agreement. Discussions could focus on:

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- 16.1.Theory to reality – testing the plans for localism to ensure that the intent is delivered through practice (e.g. percentage of funds to be delegated).
- 16.2.Local flexibility on delivery models – to what extent local areas can flex delivery structures for example making use of ITIs etc.
- 16.3.Determining local funding priorities – how this can work in practice locally (councils, LEPs, local growth teams).
- 16.4.Co-commissioning provision and local buy-in.
17. Pursue follow up meetings with lead Ministers, including Michael Fallon MP and the employment minister, Mark Hoban MP to ensure the key messages are received.
18. Develop support tools for councils on future EU funding, so they can take discussions forward locally with their LEPs. This could cover overarching principles and timescales.
19. Sue Baxter, Deputy Director of EU Programmes, Economic Development Directorate at the Department for Business, Innovation and Skills (BIS), leads the Government's work on the delivery of EU funds. She will update Board members on the Government's thinking on the EU negotiations on EU structural funds from 2014-2020, and negotiations on future management and delivery of these in England.

European Investment Bank loans

20. At their last meeting, members discussed how we needed to look at more innovative ways of spending EU funds and that a practitioner experienced in the use of European Investment Bank (EIB) loan schemes should be invited to provide an overview to the Board about the main EIB loan instruments which can help to secure growth in local areas.
21. Kenroy Quellennec-Reid, the Senior Financial Engineering Manager at the Greater London Authority will address the Board and outline how European Investment Bank loans operate on the ground.
22. The main EIB schemes of relevance to local government are:
 - 22.1.JEREMIE – Joint European Resources for Micro to Medium Enterprises, allows EIB funds to be matched with ERDF to create a holding fund which is used to provide loans (or equity or guarantees) to SMEs. The instrument has been used in Wales, Yorkshire and the Humber, the North West and the North East to create loan funds of over £90 million each.
 - 22.2.JESSICA – Joint European Support for Sustainable Investment in City Areas, typically allows ERDF and EIB funds to be brought together to create an urban development fund to support urban regeneration projects and public-private partnerships. Wales, Scotland, London, the North West and the East Midlands have opted to use the instrument creating loan funds of between £15 million and £100 million each.

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22.3. The EIB can also issue 'mainstream' loans directly to larger scale projects.

22.4. Finally the EIB also supports ELENA - European Local Energy Assistance, which helps local authorities to prepare energy efficiency or renewable energy projects. London, Bristol, and Birmingham have benefitted from funding.

23. Such instruments will play an important role in the future alongside the traditional grants from the Structural Funds. It is therefore important that councils and their partners understand the opportunities that exist and help shape these investments in their local areas.