LGA -COMMISSIONED REPORT

EU Funds and Local Growth

PRODUCED BY SHARED INTELLIGENCE

Foreword

For decades, councils have used European Union (EU) structural funds to deliver positive outcomes for people and places. Securing future EU funds, likely to be worth £8bn to the UK during the 2014-2020 programme, will be crucial to driving growth in local areas up and down the country.

With a backdrop of restricted public finances, all councils across England, working with their local enterprise partnerships (LEPs), have the appetite, commitment and expertise to convert EU money into new jobs, infrastructure and growth.

But we must get the mechanics right to enable this to happen, as previous EU programmes have proven too fragmented, too centrally driven and too challenging to access. The government needs to trust local areas to make the right spending decisions.

Councils have continuously called for EU funds to be joined up and locally responsive. Our aim is simple. The next round of EU funds should be more effectively managed, more reflective of local need, and free from overly bureaucratic rules, both from Brussels and Whitehall.

We welcome the direction of travel signalled by the Chancellor's Autumn Statement, which looks to align and devolve key growth levers, such as transport and skills. This has been a long-standing call by the LGA, as has the devolved EU funding model backed by government at a series of road shows late last year. It is a clear signal from the government that local areas are better placed than Whitehall at understanding the unique economic, social and geographic demands of their communities and can more effectively deliver projects that help deliver the economic growth the country so desperately needs.

But only through working out the detailed delivery models will we understand the extent to which EU funds are truly integrated and locally responsive. We want to make that happen. This LGA-commissioned report sets out the key issues, which need further development to maximise that local impact. To summarise, these include:

- **Local responsiveness** – EU funds deliver better outcomes when they respond to local economic priorities and need. This has been done in various ways, from local seven-year investment plans, to co-commissioning spending, through to full devolution of funding. In the new programme, councils and their partners must have a key role in shaping the strategic planning of EU funds both nationally and locally, as well as selecting and approving projects which will deliver growth locally. Locally accountability will also be important to ensure EU funds continually add value, and this requires local democratic representation on national and local boards which oversee the running of the programmes.

- **Integration and alignment** – the need to integrate and align spending better to provide match-funding, maximise effectiveness and value for money; this needs to happen centrally and locally, and both between EU funds and with national and local monies. There are a range of options for achieving this, including integrated planning and new Integrated Territorial Investment tools.

- **Stability, simplification and flexibility** – local areas need stable funding for the full seven-year period to plan effective actions, in a way that is simple for local partners to use and access. It also needs to offer flexibility so that it supports a range of new partners and at the same time allows funding to be shifted between local priorities based on local circumstances.

Councils are leading the debate on how to maximise the value of these funds, and this report offers a focus for local and national government to collectively determine the detail for implementing a delivery model. We know that achieving these ambitions is not straightforward.

The LGA looks forward to leading negotiations with government to facilitate this, and working with councils and local partners in the year ahead.

Councillor David Sparks
LGA Vice Chairman

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1 European Funds and Localisation

Introduction

1.1 This report has been written during the negotiation process on the future European Union (EU) budget and structural funds for 2014-2020. During the period when the research was taking place, the government produced its initial proposals for the management of the Structural Fund Programme in England (the focus of this report). Funding of as much as £8 billion across the UK is likely to be available during the next EU programme. This offers significant potential for councils and their partners to work with Local Enterprise Partnerships (LEPs) to stimulate growth.

1.2 This report makes the case for giving local partners sufficient freedoms and flexibility to maximise local growth through EU funds. It makes a series of recommendations to the Government which are grounded in the arguments for a genuinely local approach to growth, in the context of the current domestic discussions around growth and skills, including the publication of the Heseltine Report[1]. Implementing these recommendations should help to ensure local partners can maximise benefit of the funding in support of local communities and economies.

1.3 In writing this report, we reviewed the literature on the case for a localist approach to the delivery of European funding programmes, and interviewed local authority officers across the country to identify the ways in which the structural funds could most effectively support growth at the local level. The result of this work is set out in the following chapters, which outline how local partners in England can work collaboratively to manage and co-commission EU economic development and skills funding.

Localisation and effectiveness

1.4 Local delivery shortens supply chains and reduces costs, potentially generating greater economic efficiency and even reducing the risks associated with the loss of redistributive power by central government[2]. Fiscal decentralisation is also often considered an effective mechanism to increase participation, transparency and accountability in policy-making[3].

1. BIS, No Stone Unturned in Pursuit of Growth, October 2012.
2. Ezcurra R and Pascual P, 2008. 'Fiscal decentralization and regional disparities: evidence from several European Union countries' Environment and Planning A, vol. 40: 1185-1201.
3. Putnam RD, 1993. 'Making Democracy Work: Civic Traditions in Modern Italy' Princeton University Press, Princeton, NJ; Ebel R D, Yilmaz S, 2002. 'Concept of fiscal decentralisation and worldwide overview', texts submitted for the International Symposium on Fiscal Imbalance Final Report, Commission on Fiscal Imbalance, Quebec.

1.5 The LGA has been arguing for the implementation of greater decentralisation including the need to lift the burden of bureaucracy and increase local control of public finance. Councils across Europe are exploring more effective ways to use EU funding to support local economic growth. For example, in Denmark, the Trekant councils have come together to agree local innovation priorities, as in the case study below[4].

Trekantsområdet Local Authorities in Southern Denmark agreeing Growth and Innovation Priorities

In Denmark local actors, regional councils and local authorities to co-operate on common innovation strategic priorities and earmark resources for local areas. At least 35% of Structural Funds expenditure must benefit the designated peripheral areas developing stronger links between them and nearby cities and areas of growth and innovation. Municipal cooperation is used to stimulate the commitment of private firms and the creation of business networks with innovation priorities being set locally and agreed by municipal partners and the private sector. Local authorities have built a partnership with business and focus on: cluster development, network and competence building, innovation monitoring and an knowledge hub. **The project shows how councils within functioning economic areas are aligning their activities with others to meet EU2020 growth and innovation priorities.**

1.6 The government has recognised that councils are best placed to make decisions about the needs of their local communities, and this was stated in the 2012 Localism Act, which gives local councils and communities greater powers. The next European programme offers an opportunity to enhance the coherence of funding to support local economic growth, and give councils greater influence over the way EU funds are directed.

1.7 'No Stone Unturned' (Heseltine, 2012) calls for very significant funding devolution: "*we need to empower local places by letting them take the initiative to generate local growth*". Heseltine calls for greater alignment of EU funding and leverage of local income. He claims local leaders are best placed to understand the opportunities and obstacles to growth in their own communities.

"Policies that are devised holistically and locally, and which are tailored to local circumstances, are much more likely to increase the economy's capacity for growth. National policies devised by central government departments can never be as relevant to all the different circumstances of our local economies as strategies that originate in those places to start with". (p31)

4. OECD, 2012 Reviews of Regional Innovation: Central and Southern Denmark.

"First, too many decisions are taken in London without a real understanding of the particular, and differing, circumstances of the communities affected. And second, with responsibilities divided up between policy departments, no one in government is tasked to look holistically at the full range of issues facing a particular area. The economic challenges faced by Bristol, Cambridge or Hull will never be fixed simply by improving housing or upgrading broadband access. Barriers to growth are always multi-faceted" (p28)

1.8. These policy discussions set the backdrop for the localisation of EU funds to help achieve economic growth. Councils and their local partners can demonstrate the knowledge, expertise and stability needed to manage EU funding programmes. The local management, commissioning and delivery of future EU funds to bring growth to local areas has a number of advantages. These are explored in more depth in the following sections. Councils are able to develop locally relevant, integrated programmes highly attuned to local needs, which add value to existing activity and are, by definition, locally accountable. This new approach to EU funds offers a valuable opportunity to enhance collaboration between central and local government maximising the value of EU funded programmes and matching both national and local growth objectives.

The European Budget

1.9. The context within which the EU funds are being negotiated is one of economic fragility including considerable pressure on the Eurozone and restricted growth. EU heads of state have agreed the Common Strategic Framework (CSF) funds for 2014-2020 should be focused on driving EU international competitiveness. The European Commission is proposing to 'mandate' the UK to channel funds into addressing the biggest relative challenges facing the UK as well as contributing to the 'Europe 2020' ambitions for creating smart, sustainable and inclusive growth.

1.10 EU funds are used to stimulate economies, extend employment opportunities, develop a skilled and adaptable workforce, and promote rural development. They are designed to reduce disparities between different localities and boost economic growth – typically areas of lower relative Gross Domestic Product (GDP) receive higher allocations. It is proposed that they are simplified and combined into a CSF ensuring funds are directed towards investments supporting the Europe 2020 strategy (see next section).

1.11 The CSF will include:

- **European Regional Development Fund (ERDF)**, which aims to strengthen economic, social and territorial cohesion by supporting regional and local economic development and reducing imbalances between regions across Europe;
- **European Social Fund (ESF)**, which is designed to increase employment opportunities and improve the situation of the most vulnerable by promoting social inclusion and tackling poverty;
- **European Agricultural Fund for Rural Development (EAFRD)**, which supports smart, sustainable and inclusive growth in agriculture, food and forestry, supports inclusive development of rural areas; and,

• **European Maritime and Fisheries Fund (EMFF)**, which promotes social cohesion in fisheries dependent communities.

1.12 The CSF Funds will be directed towards investments that support the Europe 2020 strategy. The priorities of Europe 2020 are to support national governments to deliver smart, sustainable and inclusive growth, with a strong emphasis on job creation and poverty reduction. The strategy is focused on five main goals and targets:

- Employment: 75% of 20 to 64-year-olds to be employed;
- Innovation: 3% of the EU's GDP to be invested in R&D;
- Education: reducing school drop-out rates to below 10%, and at least 40% of 30 to 34-year-olds completing third level education;
- Poverty reduction: at least 20m fewer people in or at risk of poverty and social exclusion; and,
- Climate/energy: greenhouse gas emissions 20% lower than 1990, 20% of energy from renewable, and 20% increase in energy efficiency.

1.13 The European Commission has also identified specific issues which the UK's structural funds should target to support economic growth. For the CSF Funds, the priorities are: improving the employability of young people, in particular those not in education, employment or training; integration of people from jobless households into the labour market; and supporting SMEs to access finance. Councils have a role in all of these areas, and a strong interest, therefore, in the operation of the EU funds.

1.14 As well as employment and economic growth, EU2020 includes a significant emphasis on the innovation and science agendas with measures anticipated covering climate change, digital developments and smart specialisation. Councils can demonstrate experience in meeting these priorities too. For instance some authorities including Sheffield, York, Birmingham and Newcastle have been working with universities and on research and science park facilities in the current programming period and will be keen to continue do so in the coming years.

1.15 To help implement this proposed approach at the local level, the Commission has introduced new mechanisms to facilitate the development of local and sub-regional plans. These are Community Led Local Developments (CLLD), Integrated Territorial Investments (ITIs) and Joint Action Plans (JAPs) - a short description of each appears within the following box.

• **The Community-Led Local Development (CLLD)** model builds on the LEADER approach and aims to increase effectiveness and efficiency of territorial development strategies by delegating decision-making and implementation to a local partnership (or local action groups) of public, private and other partners.

• **Joint Action Plans (JAPs)** are part of one or several priority axes or operational programmes implemented to achieve specific objectives agreed jointly between the Member State and the Commission. The JAP is a tool to move the focus of management more to outputs and a results-based approach. The areas where it can be applied are not defined, but it can cover technical assistance as well as sustainable integration of young people into employment.

• **Integrated Territorial Investment (ITI)** is an instrument which provides for integrated delivery arrangements for investments under more than one priority axis of one or more Operational Programmes. Funding from several priority axes and programmes can be bundled into an integrated investment strategy for a certain territory or functional area. The government has stressed a strong case will need to be made to support the use of ITIs.

Proposed EU Growth Model for England

1.16 The government has developed a proposal for delivering the funds in England with the objective of increasing their effectiveness in delivering growth, their responsiveness to local needs as well as national priorities, their efficiency and accessibility to beneficiaries.

1.17 It includes the development of an "EU Growth Programme" where the objectives of the four funds overlap. This would combine ERDF and ESF with some part of EAFRD and an alignment with EMFF where appropriate. The growth programme would have as its top priorities, innovation, SME competitiveness, skills, low carbon and employment.

1.18 While each CSF Fund would continue to operate as a distinct fund with its day to day running being overseen by the respective managing authority, the government would create an EU Growth Programme Board at national level, and would continue to be responsible for overseeing the use of the funds, their administration and compliance with EU regulations.

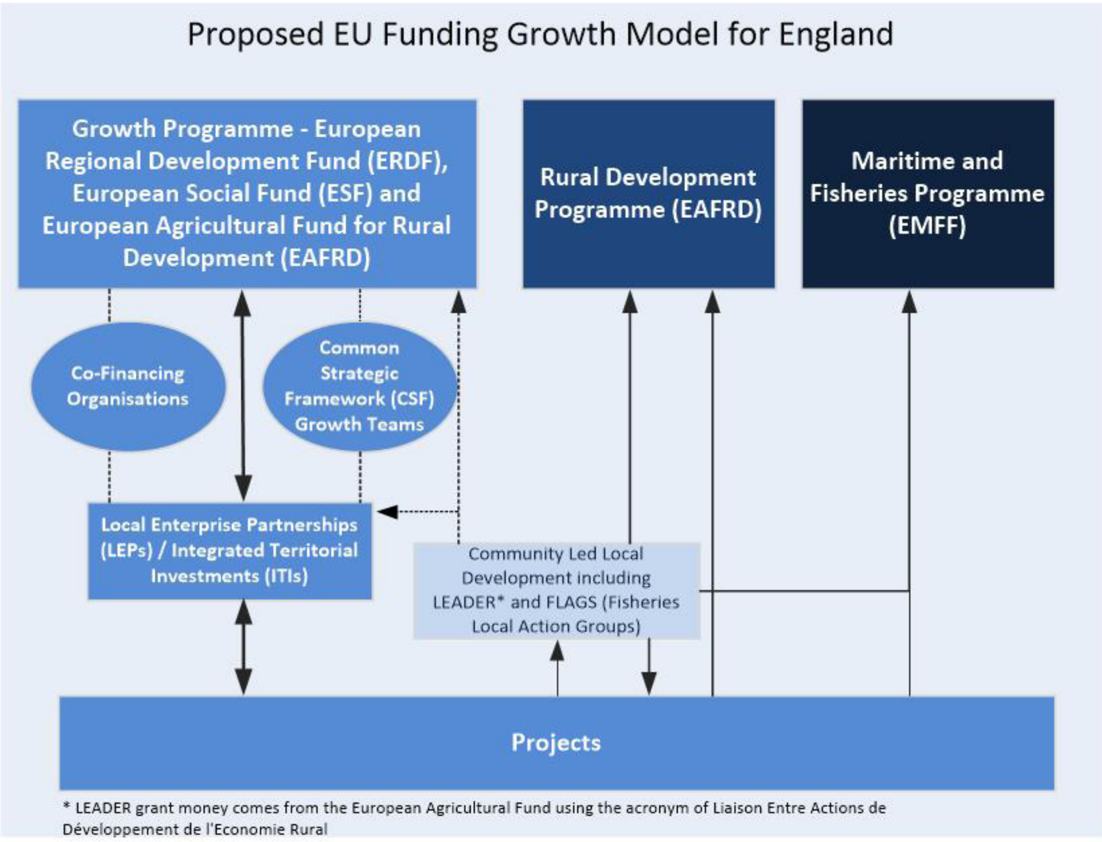
1.19 Some parts of the funds would be matched against national programmes, for instance the Department of Work and Pensions' Work Programme. Some CSF funds will be deployed as loans through "financial instruments" rather than through grants, in order to stretch the budget further.

1.20 Local delivery would be through Local Enterprise Partnerships (LEPs), so that EU Funds can be aligned with local growth programmes and priorities[5]. This would be done by negotiation around an EU investment prospectus to be prepared by LEPs as part of their wider growth strategies. LEPs would have notional allocations for the seven years covering ERDF, ESF and some EAFRD as appropriate, although they would be reviewed and adjusted according to performance.

1.21 The government is keen for LEPs to collaborate to deliver the EU growth programmes across LEP areas on the basis that this might increase the scale and flexibility of investments. It is, though, less enthusiastic about devolution of administrative and financial responsibility to local areas, but the Government must be prepared to discuss this where there is a strong case for increasing the impact of the funds.

1.22 The government suggests that the EU funds, delivered through this new model, illustrated in the diagram below, will be:

- more effective in their impact on growth;
- responsive to local needs and national priorities;
- more efficiently delivered enhancing value for money to the EU taxpayer; and,
- more accessible to potential beneficiaries, more co-ordinated and consistent.



5. HM Treasury Autumn Statement, December 2012, p78.

1.23 The Autumn Statement highlights that LEPs will be asked to prepare a preferred EU Investment Prospectus as part of their wider growth strategy for agreement by the Growth Board. LEPs will be asked to lead the development of strategic plans for local growth in line with national priorities and will have new roles and funding in other growth areas, for instance in setting skills strategies and co-ordinating bids under the Employer Ownership pilot programme. A strategic examination of the use of EU Funds will be linked in with this role.

Implementation of the government model

1.24 The proposed model for delivery of the structural fund programmes under the next round will be aligned with local growth objectives in a way that has not been possible up to now. A combined EU Growth Programme as proposed by the government which allocated funds to LEPs or groups of LEPs could bring greater coherence and responsiveness to local needs. Greater delegation would deliver better value and higher impact results.

1.25 While this model signals a move towards a localist approach, much of the detail is still to be determined. These include:

- The extent of devolution of administrative and financial responsibility to local partners;
- The amount of the funds that might be retained by government for aligning with its programmes, such as employment and prison-related projects;
- The extent to which the notional allocations are likely to change; and how the negotiation process will be carried out with local partners.

1.26 This document aims to support the next stage of discussions with the government by examining these issues and illustrating what will be needed from the funding arrangements in order to best deliver growth at the local level.

1.27 The LGA has made the case for localisation of EU funding, expressed in the form of *principles for localisation* focusing on:

- Local responsiveness and accountability;
- Integration and alignment; and,
- Stability, simplicity and flexibility.

1.28 The next sections of the report look at the three headline principles providing examples from councils across England of how they can be used to make the structural funds more effective in delivering economic growth. We make a series of recommendations designed to help focus the next stage of negotiation between central and local government on the implementation of the proposals.

2 Local Responsiveness and Accountability

2.1 EU funds should be used to tackle local needs and priorities. For this to happen, decisions about funding priorities and allocation need to be made at the local level. Representatives of local partners and in particular local councils must be involved in setting priorities for EU funds at both national and local level.

2.2 Some local partnerships of LEPs working with councils and other partners, may wish to take on greater responsibility and accountability for EU funds than others. The level of delegation of responsibility may vary across the country depending on the capacity, priorities and other activities of individual LEPs. Nevertheless, all areas should be able to influence both the prioritisation of the funds and their allocation to projects.

2.3 As the government works up the details for the implementation of its proposals, it will need to identify the extent of the responsibility that lies with LEPs. A leading role for councils will be vital for providing democratic accountability, and access to the funds for local communities.

Devolution

2.4 Subsidiarity, making decisions at the closest possible level to the citizen, is a fundamental principle that applies to the operation of the EU at Member State level. It is critical that decisions are taken at the most appropriate level, so that for instance, investment to support SMEs to develop and grow must reflect economic conditions at the functional economic area level, and efforts to move people into work must respond to employer demand in local labour markets.

2.5 It is also important that organisations responsible for service delivery are able to take decisions over investments in those areas. For instance, councils have a statutory responsibility to support young people and reduce disengagement, and should therefore lead in designing and commissioning EU-funded support programmes in their areas.

2.6 We would expect that most EU funding should be devolved to localities and that national programmes should be the exception. Where EU funds are matched nationally to support national programmes and where these are delivered locally, they should be locally commissioned with the involvement of the local partners. For instance, local partners across the country would welcome the opportunity to influence and co-commission employment programmes with Jobcentre Plus.

2.7 Councils are doing a great deal to organise and streamline local services to support families with complex needs with a history of intergenerational worklessness. They also play a vital role in a range of services critical to increasing the employability of those furthest from the labour market such as housing and health. Councils and local partners would be able to co-ordinate service provision more effectively with national Work Programme activity through joint commissioning at the local level. Increased local influence will result in much more tailored and locally relevant deployment of funds.

2.8 The following examples demonstrate the way in which a local area can successfully link the use of ESF with other programmes through their knowledge of local employment conditions.

Essex County Council: Essex Apprentice

The Essex Apprenticeship project, promoted by Essex City Council (ECC), targeted the engineering and manufacturing sectors firstly in anticipation of their projected job growth and secondly to reduce the number of young people not in education, employment, or training (NEET). £900,000 of ESF allowed ECC to bring together public and third-sector actors to set up an Apprenticeships Training Agency, which employed apprentices directly reducing costs for employers. Apprentices were rotated around several employers applying their newly acquired skills and allowing employers to 'test drive' several apprentices with a view to recruiting them in year two. The project outperformed all its targets and was particularly effective in substantially reducing NEET rates and promoting relevant vocational opportunities. **The Essex Apprentice project is a good example of how councils' deep knowledge of local employment conditions and needs can be applied to direct EU Funds effectively improving employability, and reducing labour market exclusion.**

2.9 In Barnsley, however, the adoption of a centralised approach to ESF resulted in a lack of transparency and meaningful engagement, in contrast with the council-led locally delivered NEET provision.

Barnsley Youth Unemployment

The Yorkshire & Humber ESF Framework identified persistent structural problems compounding levels of worklessness and economic inactivity in Barnsley and South Yorkshire (SY). To address these issues, during 2007–2013, SY received £139m European Social Fund (ESF) administered through three national Co-financing Organisations (CFOs): the Skills Funding Agency, Jobcentre Plus and the National Offender Management Service. However, the top-down approach of the programme resulted in a number of problems hindering its capacity to effectively meet its targets and particularly to engage with the hard-to-reach inactive participants. **The adoption of a centralised one-size-fits-all approach by national organisations meant that local groups were not engaged and support was not available for the hardest-to-reach groups.** As a result, very few people in Barnsley on the scheme actually needed the help offered with only 10% of participants unemployed at the point of starting the programme. At a similar time Barnsley MBC ran its own programme in unemployment 'hotspots' within neighbourhoods experiencing high levels of youth worklessness. By contrast this targeted ESF-funded scheme helped the authority to reduce the number of disengaged young people from 13.1% in 2006 to 5.6% in April 2012.

Local responsiveness

2.10 There will be variation at local level around partners' appetite for taking on full accountability for EU funds and responsibility for compliance. Regardless of where this lies, however, local partners will want responsibility for prioritising the funds and identifying projects within their growth plans. Within the EU programme requirements, they should have full flexibility in setting funding priorities between for example, growth and social inclusion activity based on the needs of their area.

2.11 In practice, this means that the structures for managing EU growth funds need to support partners at the local level to take decisions on their prioritisation, their allocation, approval or rejection of projects, monitoring and overseeing the programme delivery.

2.12 Illustrating how councils do this, Torbay Council used ERDF to tackle local economic priorities by successfully promoting a locally tailored programme of business support, as described in the following example.

Torbay Council - Enterprise Growth in the Bays

By matching ERDF Urban Enterprise Priority Axis 3 funding with council and SWRDA Single Pot funding, Torbay council secured £5m regeneration funding for projects to stimulate enterprise growth in the Bay's most deprived areas. Torbay's economic performance is among the poorest in the South West. Torbay has the lowest level of GVA per head, the lowest average earnings, the highest proportion of benefits claimants and the highest unemployment rate. In light of this, it used ERDF for enterprise coaching, micro loans, social enterprise support, self-employment support, and access to start up finance. 133 new jobs have been created and 114 new businesses established, 50% of which are in Torbay's most deprived area. **Torbay Council was able to use ERDF to address key weaknesses in the local economy, successfully promoting a programme of business support that favoured enterprise growth in those areas most in need of public assistance.**

2.13 Hull City Council developed a suite of Community Partnership activities focused on the needs of deprived areas.

Hull City Council - Community Partnership

Under the 2000–2006 Objective 2 programme, ERDF funding for the Humber sub-region was directed to assist the most deprived areas and communities in Hull. Hull City Council (HCC) managed the funds and provided the secretariat for a local community partnership created to identify the areas and individuals of greatest need. The programme delivered 168 projects across Hull and the sub-region with a value of £197m and was successful in securing £130m of match funding. A number of successful projects were approved and implemented including: East Hull Community Transport, which by 2010 enabled over 1,000 individuals to access work or vocational training for employment; and St Aidan's Community Resource Centre, which focused on employment initiatives and family support in targeted areas having poor literacy and numeracy skills. It also funded the Hull Employment Partnership, which went on under the 2007-2013 Programme to secure £2.2m of ERDF matched by £2.3m of public funds to help support the growth of enterprises in the more deprived areas of Hull. It created 180 jobs, 60 new businesses, assisted 270 SMEs and 90 social enterprises, and promoted £3m of additional investment in the local economy. **HCC was effective in identifying highly tailored local strategies promoting economic growth.**

2.14 Local partners feel distant from the funding agencies and have found it hard to influence spending priorities in their area. But there are examples where this has been achieved successfully through the good will and commitment of local partners. Blackpool was able to deploy ERDF for an Economic Development Zone to develop a spatial strategy to help revive its Seafront area (see case study below).

Blackpool Economic Development Zone (EDZ)

Blackpool was able to use ERDF under two different programmes. Community Economic Development (CED) under Priority 2, and an Action Plan under Priority 3 to develop a spatial strategy and regeneration projects within an Economic Development Zone. The CED intervention projects created local employment and enterprise opportunities, removed barriers to participation and progression, improved employability and increased labour market participation. They also built the capacity and cohesion of groups and communities and improved the physical environment. Under Priority 3 the aim was to tie in deprived neighbourhoods through new employment and business creation. The environment needed comprehensive improvement only achievable through an EDZ action plan designation. Large regeneration projects, including the seafront and entrance corridor areas to the resort, had a profound economic and social impact on the adjoining deprived wards. **Blackpool's EDZ met local priorities and successfully engaged the local community. It illustrates the capacity and capability of this unitary authority to develop and manage EU funded action plans.**

Democratic Accountability

2.15 As we have argued above, local partners have a better understanding of the needs of local businesses and residents, which means that they are in a position to use resources more effectively to respond to their needs. Councils have a crucial role to play in providing democratic accountability and transparency, and in engaging local communities. Many areas have made use of EU mechanisms, such as LEADER and Integrated Area Plans, to achieve effective local accountability.

2.16 Local communities need to know how EU funds are being spent in their area. For the next programming period, democratically elected representatives are best placed to ensure local accountability and should play a full role in the development of local priorities.

2.17 Local engagement should apply at each stage in the process of implementing the 2014 to 2020 Structural Funds. This must start with the development of the Partnership Contract between the EU and the government, including local government, and follow through into the development of Operational Programmes. There should be local representation on the EU Growth Board and within Local Growth Teams. Councils and their partners will need to have a key role in constructing local growth plans.

2.18 The Nottingham case study below shows how ERDF has been allocated through Commissioning Groups of councils and local partners.

Nottingham

In Nottingham, £142m ERDF was used to promote economic development in the 12 most disadvantaged local areas of the East Midlands region. They targeted the funds through local 'Commissioning Groups' composed of representatives from councils who could put forward local priorities and help shape the programme. Local partners together were better able to identify relevant priorities and facilitate match funding (£85m) and demonstrate improved economic performance across all the target areas. **Locally determined investment plans have been able to address the needs of disadvantaged areas with minimal administration.**

2.19 Some councils have talked about the challenge of achieving real influence within the Local Management Committees set up to oversee ERDF at the regional level, and the ability of local areas to have oversight on how ESF is being spent in their local areas. The new programming period offers an opportunity for LEPs to engage proactively on EU funds. Heseltine notes "with a new enhanced role for LEPs, it is important they have the skills and capabilities to deliver". Councils can help achieve this. Technical Assistance should also be used to help develop capacity.

Conclusions and Recommendations

2.20 At this stage there is a lack of clarity over a number of key issues within the government's proposed structures for managing EU funds within the next programme period. In particular, there should be discussion on:

- The role of local partners in setting priorities for the funds at national level;
- The proportion of the total CSF funds to be devolved to LEPs and local partners;
- Local partner engagement in commissioning national programmes which will be delivered at the local level;
- The extent of devolution to LEPs in terms of responsibility for not only prioritising the use of the funds within their areas, but also for allocating funding to projects; and,
- The roles and relationships between LEPs, local councils and other partners, including universities.

2.21 We have argued in this section for mechanisms to ensure local responsiveness, flexible use of funding within local areas, supported by democratic accountability on the basis that they will increase the impact of EU funding. Influencing decisions on EU spend at an early stage will be crucial and this should start with engagement of local partners in negotiations on the Partnership Contract, and on the proposed national EU Growth Board. At the local level, democratic accountability will help to increase responsiveness, transparency, and engagement of local communities.

2.22 Our recommendations are as follows:

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.

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.

3 Democratic accountability: should be enshrined through providing a leading role for local councils, and providing public sector partners, local communities, businesses and third-sector influence over EU spending strategy and decision-making.

3 Integration and Alignment

3.1 A significant element of the government's proposal is to integrate EU funds, and this is a very positive step. EU funds should be brought together to deliver strong, integrated programmes in all areas reflecting local economic geographies. The European Commission is clearly determined to see greater integration, and the government proposals discuss the intention to support the use of the funds to support each other. However, how this will be achieved will affect the ease with which local partners are able to ensure spend takes place on the ground.

3.2 Funds should also be integrated with national funding streams, and the preparation of local growth plans incorporating EU growth funds should support this. The extent to which national funding streams are able to be integrated and operate as a single pot will depend on the extent to which the recommendations of the Heseltine report are implemented, but again will impact on the ability of LEPs and local partners to achieve local growth.

3.3 Subject to the answers to these questions, instruments like Integrated Territorial Investments (ITIs) and Community-led Local Development (CLLD) should be fully exploited wherever there is the local capacity and appetite to do so.

Integration

3.4 The LGA believes that greater benefits could be realised by better aligning EU funding with domestic funding through local mechanisms[6]. This would ensure that investment priorities are accountable to local needs. Integration of funding allows councils to improve the alignment, co-ordination and delivery of EU funding with their economic development priorities.

3.5 The integration of funds is not new; in the current programme period some areas have been able to exploit ERDF and ESF together to do this (see the following Cornwall case study).

6. LGA, Towards an EU Local Development Methodology, 2010.

Combining ESF with ERDF: Newquay Airport in Cornwall

Cornwall and the Isles of Scilly already work to align ESF and ERDF both strategically and through commissioning via a joint Convergence Local Management Committee. Funds are combined at a project level with joint ERDF and ESF projects delivering against an agreed growth and skills agenda. For instance, substantial ERDF capital investment at Newquay airport has been complemented with £8m of ESF convergence funding for training and capacity building to support workforce development as part of an ESF 'Cluster and Geographical Programme'. The aim was to target the specific skill needs of 200 members of staff linked to the ERDF investment at the airport. ESF also funded associated technical training to support the airports' future growth for instance around meteorology, and radar and air traffic control. **The project shows that some councils are already combining structural funds adopting a streamlined approach and maximising the impact of strategic investments.**

3.6 An example of how a local area can integrate European and domestic funds effectively at the local level is provided in the case study of Norfolk below:

Norfolk County Council: InteGreat, Coast Alive

Between 2000 and 2006 Norfolk County Council (NCC) invested £11m of its own money in projects that had a combined value of £114m and a EU funding contribution of £42m from a mix of European funding streams. It included the £16m InteGreat project, £4.7m of which was from ERDF, to revamp the seafront at Great Yarmouth. Over its 4-year life, the project significantly overachieved against its targets drawing in match funding from the East of England Development Agency, Objective 2, the Heritage Lottery Fund and NCC. The County Council was able to use transnational programmes to generate tangible outcomes for the sub-region. For example, through an Interreg project, Coast Alive, new community benefits were delivered for the economy of the North Sea region using €319,082 of ERDF and NCC resource. **NCC has shown how the integration of EU and domestic funds can deliver value for money and target the needs of the local economy.**

3.7 The example provided in the following Liverpool Investment Vehicle case study illustrates the ambition to maximise the impact of funding by creating a single funding pot to support local growth.

Liverpool Investment Vehicle

Looking to the future, a new approach to investment for the city of Liverpool is being developed which will be deployed through the Liverpool Mayoral Development Corporation (LMDC). The LMDC will provide strategic direction and control for a new investment programme, the Mayoral Investment Programme (MIP), using public and private finance and assets through a single pot. The long-term aim for the LMDC is to operate a multi-billion pound investment vehicle that will operate as a "Bank of Liverpool". This will grow and evolve over time but will initially bring together a widening number of public funding streams, including future EU funding, into a single investment pot which can then be used to attract additional private sector match and leverage commercial loans and equity funding. Importantly, it is estimated that up to 40% of this single pot could be eligible as local match funding to attract both ERDF and ESF. **The scale, ambition and streamlined nature of the fund shows how some authorities are aspiring to a much more coherent and aligned approach within the next programming period.**

Sources of finance for the MIP single pot could include government funds provided as a consequence from the original Liverpool City Deal, the City Council's own resources, future receipts from sale of City Council and HCA assets, business rates from the two Enterprise Zones in Liverpool, national initiatives such as Regional Growth Fund and Growing Place Fund, investments in Liverpool via JESSICA and the Green Investment Bank, and future EU funding programmes. Local partners will also use the fund to align resources with those provided by the Technology Strategy Board, the Work Programme, Manufacturing Advice Service and Growth Accelerator; thus allowing the LDMC to commission to compliment ERDF and ESF-funded activity.

3.8 In some areas, City Deals provide a vehicle for delivering EU funds. A number of City Deal proposals put the case for influence and control over skills funding including all SFA expenditure and corresponding control over the ESF match, with local flexibility around eligibility requirements for training. Where a City Deal programme seeks additional responsibilities for prioritising SFA spend, that corresponding additional ESF should be identified within the LEP allocation to support it. An example is provided in the following case study from the Greater Norwich City Deal proposal.

Greater Norwich City Deal (Proposal)

The strategic objectives of the Greater Norwich City Deal are consistent with the CSF Objectives of delivering growth and EU policy tools, notably the use of Integrated Territorial Investments. This would provide an opportunity to secure a 7-year programme of funding using Structural Funds, to meet the strategic priorities for growth in the area. Greater Norwich can demonstrate critical mass, ambition, local capacity and solid governance. It will be particularly helpful in removing the requirement for EU projects to have to deal with a number of Government departments that tend not to be always synchronised with local action plans and priorities.

3.9 Linking up to national programmes should help to avoid duplication, and provide a better fit with these programmes and their priorities. Councils will also be able to widen and deepen national support as they see fit: for instance, by tying into the needs of local businesses or extending provision into new target groups that have been identified as requiring support, as in another example from Liverpool, below.

Liverpool City Council – ILM programme

During the 1999-2005 programming period the Council used ESF to solve the problem that New Deal for Communities only targeted the 18-24 age group. The ILM programme aimed to reduce long-term unemployment for over 25-year-olds. The council contracted provision to local social enterprises to deliver employment and training to long-term unemployed residents. The local programme was highly complementary with national one and during its final year nearly 70% of participants moved into permanent employment. The vast majority of the businesses involved in the programme are still operating today within Liverpool and in some cases being run by former trainees. **Liverpool City Council demonstrates how it is possible to extend national provision into new target groups.**

3.10 The more that national and EU funds can be integrated by government prior to allocations being made to LEPs on the basis of their growth plans, the greater the local discretion and flexibility over the allocation of the funds will be, and the more effectively local partners will be able to deliver growth at the local level.

Application of new mechanisms

3.11 Depending on the answer to the above question, the new programme offers the opportunity to apply new mechanisms (ITIs, CLLDs, JAPs). Some of these mechanisms may therefore provide a more effective mechanism for integrating funds than the LEP allocations elsewhere will allow. As LEPs and local partners develop their ambitions to align local programmes with new investments to support growth, these opportunities should be encouraged. In addition there will be the opportunity to develop approaches previously available through the financial instruments known as JEREMIE and JESSICA.

3.12 The following case study shows how local partners have proposed a single funding pot.

Future investment models: Cornwall

It is anticipated, following the City Deal approach that 'a Cornwall Deal' would include an investment fund with a revolving component for economic development. It would be drawn from the council budgets combined with LEP allocations from the Regional Growth Fund, along with Coastal Communities Fund, and Big Lottery Fund, Arts Council for England and the Enterprise Zone budget. **Through a locally managed and matched programme, Cornwall can ensure all available resources are effectively combined to meet European, national and local targets delivering the best possible value for money and maximum outputs.**

3.13 The new financial instruments have been used in a number of areas, including the North West of England (see the following case study).

JEREMIE in the North West[7]

The North West Fund is a £170m evergreen investment fund and was established to provide debt and equity funding to small and medium-sized enterprises in the North West of England. It provides a good illustration of 'work in progress' in terms of applying new funding mechanisms. The Fund addresses an identified gap in the lending, venture capital and private equity markets. The Fund is managed by North West Business Finance Limited, an independent private sector company. It comprises six specific funds, each of which is managed by an experienced Fund Manager each appointed to manage the discrete funds. They will deploy the funds in a non-competitive, collaborative manner providing comprehensive and tailored support the long-term growth and prosperity of small and medium sized enterprises across the region. (Continues on next page)

7. Source: http://www.thenorthwestfund.co.uk/about-the-fund

JEREMIE in the North West (continued)

The North West Fund's initial investment period extends until December 2015, with a subsequent realisation period through to December 2022, by which time it expects to have supported 800 businesses, created or safeguarded 14,000 jobs; and added £300m to the North West's gross value added. The North West Fund is financed by the European Regional Development Fund and the European Investment Bank (EIB) under the European Commission's Joint European Resources for Micro to Medium Enterprises Initiative - otherwise known as the JEREMIE programme.

3.14 The new approach to integrated territorial initiatives provides a better mechanism for local partners to integrate funds in a way that has not proved possible for the government to do nationally.

3.15 To illustrate the point that local administrations are capable of managing devolved programmes, the example below is from the West Netherlands, where responsibility for an Operational Programme (OP) was devolved to a local authority because this was the most effective way of managing the programme.

West Netherlands

In the Netherlands, the government has assigned **the Rotterdam Municipal Executive as Managing Authority for the West Netherlands OP**. The managing authority has judicial, financial and managerial responsibility for the West Netherlands OP, and makes payments to Amsterdam, Rotterdam, The Hague and Utrecht for their respective parts of the programme and to the beneficiaries within the region. A jointly agreed implementation covenant sets out arrangements for the implementation of the OP. Each local authority is responsible for the effective implementation and management, monitoring and supervision of their local package. It provides the Managing Authority with monitoring and research, evaluation reports, and publicity. This arrangement has supported localised delivery, and the achievement of locally agreed objectives for the funds.

Creative use of match funding

3.16 One of the constraining factors in relation to the use of EU funds is the availability of match funding. Local partners should therefore be offered greater and easier access to mechanisms such as Tax Increment Financing, City Deal flexibilities, and other economic development tools for use as match funding. LEPs and local partners are confident they can attract more private sector match funding through local SMEs in a scenario of greater funding devolution.

3.17 Partners would welcome constructive discussions with local growth teams to identify and determine match funding. Councils should be free to develop more effective match funding mechanisms and, where appropriate, single investment funds to marshal discretionary growth monies effectively. Several cities are pursuing this approach. The Sheffield City Region LEP is looking at the possibility of channelling EU funds through a Sheffield City Region Investment Fund. This fund would ensure the integration of the funds being deployed to deliver their economic growth plan. As well as offering the possibility of matching funds at source, the Investment Fund also provides a potential mechanism for any recycled monies generated by financial instruments to be at the disposal of the city region.

3.18 In London a locally led mechanism has been developed which identifies match funding within local areas in order to direct funding towards local priorities with a creative approach to co-financing.

London Councils

In the current programme, London has had a mixed approach to ESF, with a number of bodies operating as co-financing organisations (CFOs) across the capital. London Councils, a CFO, worked with boroughs to enable them to provide additional match and develop local specifications for the funds directed towards third-sector agencies within their communities in order to respond to very local needs. **This meant the boroughs acted as joint co-financers across London to help develop skills and employability for hard to reach groups.**

The effectiveness of this model is evidenced from a comparison between the programme outcomes and other London co-financed programmes. The London Councils programme achieved the highest proportion of people going into work on leaving the programme (23%), despite having the highest proportion of economically inactive participants (almost 70%).

3.19 Lincolnshire County Council has identified a range of sources to use as match funding for European programmes, as shown in the following example.

Lincolnshire County Council (LCC) and the districts: Funding Co-ordination and Co-Financing

LCC together with its District Council partners identified a substantial sum of on-going match funding deploying core budgets as local match to support its integrated growth programme. It included a capital match funding programme of £30m over four years; £330,000 per year of skills funding; sector development funding of £370,000; and local business support at £250,000 per year. It used these sources to match fund three EU programmes: as managing partner of three RDPE (Leader) local action groups; as ESF co-financer on behalf of East Midlands' councils (see below) and as a recipient of Technical Assistance monies to manage a local ERDF strategy agreeing District and County Council level strategies. **LCC's ability to source and secure local match resulted in coordinated projects and coherent and effective delivery. It also gave the flexibility to occasionally redirect projects from one funding pot to another and use local funds to plug short-term funding gaps.** Lincolnshire has also stepped in to provide business support services, following the withdrawal of Business Link.

Lincolnshire also leads an ESF Co-Financing Plan (2007-2013) on behalf of East Midlands' authorities. Including Derby, Derbyshire and Leicester it covers a diverse range of employability and workforce adaptability measures. All the funding for the plan has been allocated (almost £8m including match) and it is ahead of target getting some 2000 people into work and training around 3,500 participants. **The plan demonstrates the capacity of councils to co-ordinate the delivery of a large multi-stranded programme across a disperse and varied geographical area.**

3.20 Black Country authorities also came together to meet local needs and identify match funding for employment and skills projects.

Black Country Consortium: local partnerships for support of deprived areas

The Black Country has a strong tradition of collaborative work between the councils and their partners, delivering EU funds in the most deprived areas of the sub-region. Successful projects have benefitted from the integration of EU Funds matched by local resources. For example, Wolverhampton City Council accessed £590,000 of ERDF during the 2007-2013 programme to support the council's Neighbourhood Employment and Skills Service. It targets employment support in 10 of the most deprived wards in the City. Match-funding was secured locally, as the Skills Funding Agency (SFA) funding was ineligible. (Continued on next page)

Black Country Consortium: local partnerships for support of deprived areas (continued)

In 2000-2006 the Black Country councils matched ESF resources to offer a programme of global grants to small third-sector organisations improving the economic and social cohesion of the most deprived communities. The programme awarded 48 grants, which recorded an 81% increase in confidence of the client group. The scheme also built the capacity of small organisations to access other funding streams. **Collaboration between councils on EU funds has proved very effective in maximising local match funding and promoting joint programmes of action targeting those in the greatest need.**

3.21 In Bristol, funds will be aggregated in order to explore the most effective ways to use a variety of funds to achieve a strategic approach to delivery including identifying match for European funds.

Bristol Development Fund

The City of Bristol and its local partners in the wider City Region have exciting plans to use its City Deal to form the basis of a £1bn development fund. This is likely to include resources from Enterprise Zone, TIF 2, Regional Growth Fund, Growing Places Fund, retained business rate income, New Homes Bonus, Community Infrastructure Levy (CIL), Section 106, Prudential Borrowing, and the Council's own capital programme. **By aggregating the funds locally, Bristol City Council and the West of England LEP are able to ensure expenditure is aligned to a locally determined programme.** This will create greater opportunities to generate more investment from local partners and increase the capacity of local stakeholders to deliver a programme of significant added value to the surrounding area. Partners will align the fund with local strategic investment plans and use it to identify potential sources of match funding for the period 2014-2020.

Conclusions and recommendations

3.22 The areas of uncertainty and further discussion in relation to these issues include:

- At what level, and through what mechanisms, EU funds will be integrated, and the extent of flexibility between the funds at the local level;
- The extent of integration of national funding into a single pot, and the ability of local partners to use this funding as match for EU funds;
- The ability of local partners to align spend from national EU programmes with local growth priorities outside the EU growth fund;
- The conditions under which the government will approve the use of new financial mechanisms; and,
- The ability of local partners to bring national funding streams together, and identify private-sector resources to use as match for EU funds.

3.23 We have argued in this section for EU funds to be integrated and aligned with national funding streams at the local level. The flexibility to use other funding channelled through LEPs to match EU funding, along with the ability to use private sector match funding will help to increase the range of projects that the funds can help support. Local partners including councils can also work creatively to identify local sources of match funding, and we have shown examples of where this has been done in the current programme period. Integration and alignment of the funds will therefore help to increase the impact of the funds in supporting local economic growth.

3.24 Our recommendations are:

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.

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.

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.

4 Stability, Simplicity and Flexibility

4.1 The government proposes notional allocations of funding to the LEPs over the period of the programme. A seven-year allocation should enable local areas to take a more strategic approach to investment in the area aligned with LEP growth plans. It will be important that these allocations are indicative of the actual allocations, and that changes are not made without good reason.

4.2 EU funds are highly complex; each with separate rules and requirements, managed by different Whitehall departments and often subject to changing delivery structures. Any simplification measures will be extremely helpful for all those organisations bidding for, as well as managing, the funds.

4.3 Under the proposed model it is also important there is sufficient flexibility for councils to engage with EU funding as they see fit. Local areas should be able to choose from a full range of investments which meet local need and contribute to Europe 2020 objectives, and have the freedom to work across different economic geographies. Local partners agree with the Heseltine proposal that every LEP area should have an allocation of EU funds, and within LEP areas, there should be an ability to develop locally appropriate sub-programmes or respond to local priorities.

Stability

4.4 Councils have the knowledge, expertise and stability needed to manage EU funding programmes. They also have robust procurement and risk management processes which are required to manage complex projects and programmes. Many authorities have played a significant role in EU programme delivery and managing EU-funded projects over several generations of structural funds. In Cornwall, based on over 15 years' experience of fund management, the County Council and its partners are looking at ways to assimilate funding allocations in way that will give certainty and limited change to investors and partners and stability in the medium term. It is anticipated through this investment model that further economic growth and significant exchequer benefits will be achieved.

Developing Stable Future Investment Models for EU Funds: Cornwall

Following the City Deal approach 'a Cornwall Deal' would include an investment fund with a revolving component for economic development. This will offer a higher degree of stability and a strategic approach to growth. With the additional leverage from EU funds, the County Council and its partners expect to achieve 'stretched targets' for economic growth including additional jobs and a resultant decrease in welfare claimants. The investment fund will be drawn from the council's budget plus ring fenced allocations from national programmes such as the Regional Growth Fund, Growing Places Fund, Coastal Communities Fund, Big Lottery Fund, Arts Council for England and the Enterprise Zone. **Through strong local management and a fully matched programme, Cornwall can ensure all available resources are effectively combined to meet European, national and local targets delivering the best possible value for money and maximum outputs.**

Simplification and support

4.5 It is important that streamlined governance arrangements are accompanied by improved long-term strategic decision making. Simpler project finances, a stronger focus on results and performance management should be introduced into the funds too, whilst keeping new reporting burdens on beneficiaries to a minimum. The government is keen to 'hide the wiring' from local projects and beneficiaries with a single application form and single monitoring requirements. This is welcome, but the management of separate funds through Whitehall departments must not jeopardise local efforts to join up local activity. Some councils believe the private sector would invest more in a more locally determined programme.

4.6 The simplification of fund management can help to ensure the efficient absorption of funds locally promoting better co-ordination of match-funding and co-financing across the public sector. Under the last programme, this was achieved in Cornwall and South Yorkshire.

Combining EU Funds: South Yorkshire

South Yorkshire's experience of running the 2000-2006 South Yorkshire Objective 1 Programme demonstrates the four South Yorkshire authorities were collectively able to manage a significant programme delivering growth and jobs as well as spending compliantly and to profile. Over £2.4 billion was invested in Objective 1 projects with over £820m from the European Union's Structural Funds budgets drawing resources from ERDF, ESF and EAGGF. It attracted considerably more private leverage than was anticipated. **Some of the EU funds were matched at source through a single application to simplify the procedure and reduce bureaucracy.** The programme directorate also carried out joint project appraisals with the regional development agency which provided much of the public match funding.

4.7 The new model should have a standardised approach to make the funds more accessible, ensuring a better alignment of sectoral funds, such as those for research or innovation, with those designed for regional development. Some areas have told us about difficulties experienced through complexity and bureaucracy (see the Tees Valley business support example below).

Tees Valley ERDF Priority 2 Business Support Programme

Tees Valley was awarded £3.3m ERDF matched by local partner contributions of £3.7m to promote business formation, sustainability and productivity. However the project encountered a number of difficulties throughout its lifetime. The approval for the project was obtained one year later than anticipated. There have also been a series of complications in collaborating with the national Managing Authority (MA), which gave inconsistent advice, and was slow in communicating management changes, resulting in a claw back risk to councils. Finally, complicated bureaucratic processes requiring excessive detail in transaction sheets increased costs of the project reducing its chance of success. **These complexities, delays, and bureaucratic issues were a burden for Tees Valley, resulting in the programme of business support underperforming on many targets.** Only 68 new businesses were created/attracted out of a projected 126, and 203 out of a projected 280 SMEs received support.

Flexibility

4.8 Councils would welcome a range of opportunities to engage with EU funds either thematically or geographically, as well as the flexibility to adjust funding priorities to respond to shifting need. The new proposed model offers the possibility for councils to transcend previous programme administrative boundaries working across functional economic areas – working for instance on important supply chains, across labour markets, themes (SMEs, Low Carbon, Digital) or growth sectors. This will support a new generation of new multi-sectoral, multi-level partnerships and working across non-traditional boundaries.

4.9 The proposed Birmingham City Council Green Bridge initiative and proposed South West Marine Energy Park aim to achieve just that, and demonstrate the ability of councils to provide leadership and support for cross-LEP working.

Green Bridge 2013-2017

Green Bridge is a £60m initiative benefitting from £20m from the Regional Growth Fund and will operate across six LEPs (Greater Birmingham and Solihull, Black Country, Coventry and Warwickshire, Worcestershire, Stoke-on-Trent and Staffordshire, and The Marches). It is designed to encourage sustainable economic growth by strengthening and developing supply chain companies requiring between £20,000 and £100,000 funding in the development of new markets and products, skills development and/or capital investment. The initiative is aimed at addressing market failure and barriers to growth in neighbouring LEP areas. By providing investment, it will promote innovation across industries and spill-over benefits across wider sectors affected by green technologies such as building technologies, low carbon, manufacturing, transport and logistics. Green Bridge is a rolling programme expected to create or safeguard 1,074 jobs and attract £40m from the private sector during next four years. **Whilst subject to final Treasury approval, the concept of cross LEP working on shared industrial priorities is one that should be enabled under the proposed new model.**

4.10 Birmingham City Council also manage the ITM project (see below) which has a transnational dimension.

Innovation, Transnationality and Mainstreaming (ITM) (Birmingham City Council)

The European Social Fund (ESF) has always put a premium on learning lessons and using its experience to inform and influence other employment and skills policies and programmes including contributing to and learning from work in other European Union (EU) countries. Under the 2007-2013 programme in England, Birmingham City Council leads the Innovation, Transnationality and Mainstreaming (ITM) strand of ESF supporting 32 strategic, regional projects looking to develop and deliver new ways of extending employment opportunities and raising workforce skills. It aims to promote social inclusion, raise productivity, and foster competitive businesses, as well as living within environmental and demographic limits. **This project demonstrates the capacity of larger authorities to manage substantial programmes.** The council has intermediate body status and delegated authority and is subject to annual audits. It represents the UK government on EU platforms and runs programmes on behalf of DWP.

4.11 Councils should be afforded adequate flexibility to work strategically together and with national government to deliver effective local responses. Growth strategies need to be sufficiently flexible to allow for cross-LEP working.

4.12 Sometimes local areas need to respond flexibly to economic conditions, for instance in response to a rapidly changing technology or economic shocks. In Cornwall the flexibility built into the programme allowed the team to respond to new requirements for the marine renewables and geothermal sector which grew at pace that could not have been anticipated when the programme was conceived.

South West Marine Energy Park[8]

The achievement of the UK's low carbon targets would clearly benefit from the effective utilisation of the natural resources offered by Cornwall and the Isles of Scilly. Yet capacity in this area remains under-utilised/exploited. The South West Marine Energy Park offers 'a unique mix of renewable energy resource and home grown academic, technical and industrial expertise' (Greg Barker MP, Minister of State DECC). Cornwall County Council is leading involvement in the development and future of the Park. It includes a Wave Hub, PRIMaRE (the Peninsula Research Institute for Marine Renewable Energy) and a part ERDF funded Energy Business Park. It was launched by the energy minister in January 2012 as an opportunity to work closely with the government to fully exploit marine energy opportunities in England. **This project demonstrates the potential to deliver on European 2020 and domestic low carbon priorities working across a supply chain rather than within a restricted geography.**

Conclusions and recommendations

4.13 The areas of uncertainty and further discussion in relation to these issues include:

- The nature of the 7-year allocations to LEPs and the criteria for changing these allocations during programme period;
- The role of the Local Growth Teams in supporting project and programme development;
- How the simplifications will be achieved, and the role of local partners including Local Growth Teams in guiding applicants;
- How LEPs will be incentivised to work across LEP boundaries, and the level of flexibility for councils to engage with different LEP groupings on EU growth programmes.

8. Source: http://www.regensw.co.uk/projects/offshore-renewables/marine-energy-/marine-energy-parks

4.14 We have argued in this section for sufficient stability in allocations to local partners to ensure that strategic investment plans can be followed through. This will be vital for LEPs to enable them to pursue local growth plans and achieve the maximum impact from the European component of LEP growth plans. We also recommend that funds should be simplified to increase accessibility and support their use by local communities, and finally that there is the flexibility built into the programme. Local partners agree with the Heseltine proposal that every LEP area should have an allocation of EU funds, and within LEP areas there should be an ability to develop locally appropriate sub-programmes or respond to local priorities.

4.15 Our recommendations are:

7 Stability: Local partners should have a 7-year allocation of funding, with limited change over that period to ensure a strategic approach to growth over that time.

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.

9 Flexibility: Councils are keen to work with LEPs across new economic areas 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, and should have the flexibility to adjust funding to match shifting local circumstances.

5 Summary and Recommendations

5.1 EU funding will play a vital role over the coming years in supporting economic growth. The government's proposed model for EU funding is in line with a localist approach and is to be welcomed. That said, the way the approach will be implemented is as yet unclear, and there are many questions for discussion over the coming months.

5.2 This report argues for arrangements that are responsive to local circumstances, promote the flexible use of funding within local areas, and fully support democratic accountability. This will increase the impact of EU funding and its effects on national growth. Councils working with local partners are best placed to determine the requirements and priorities of local areas. They are also well placed to advise on the implementation of national programmes at the local level.

5.3 We have identified a number of key questions for discussion over the coming months. First it is paramount that local partners including local government are involved in setting priorities for the funds at national level. Local partners will need to input on the actual proportion of the total CSF funds to be devolved to LEPs. The mechanism for local involvement in commissioning national programmes at the local level also needs to be clearly specified.

5.4 Discussions will also need to cover the extent of devolution of responsibility for not only prioritising the use of the funds within LEP areas, but also for allocating funding to projects. It is important that the funded projects meet local partners overall growth objectives. How democratic accountability will be achieved is a key consideration for councils and this is another issue requiring discussion between local and national government, alongside the roles and relationships between LEPs, local councils and other local partners.

5.5 The government should clearly specify at what level, and through what mechanisms, EU funds will be integrated, with the objective of integrating them nationally in order to allow the maximum flexibility across the funds at the local level. The objective should be the same for the integration of national funding into single local pots, with the ability to use this funding as match for EU funds. Local partners should also be able to align spend from national EU programmes with local growth priorities outside the EU growth fund. The government should support the use of new financial mechanisms where they can contribute to local growth plans.

5.6 The nature of the 7-year allocations to LEPs is currently unclear, and in clarifying the extent to which they are firm allocations, the government should confirm that there will be limited change to allocations over the programme period. Stability and certainty are important features of the proposed approach, and local partners are very keen to retain these elements, and want the government to specify the precise role of the Local Growth Teams in supporting project and programme development. It is also important that local and central government work together to determine the role of Local Growth Teams.

5.7 The recommendations for government are as follows:

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.

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.

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.

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.

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.

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.

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.

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.

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.

5.8 These recommendations aim to support the use of EU funds in a way that will secure the maximum benefit for local communities and economies.

Local Government Association
Local Government House
Smith Square
London SW1P 3HZ
Telephone: 020 7664 3000
Fax: 020 7664 3030

Email: info@local.gov.uk
www.local.gov.uk

Shared Intelligence
1 Naoroji Street, London WC1X 0GB
Telephone: 020 7756 7600

Email: solutions@sharedintelligence.net
www.sharedintelligence.net