

**Report of Director of City Development**

**Report to Executive Board**

**Date: 9 March 2016**

**Subject: European Structural and Investment Funds Programme 2014-2020 Update**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Summary of main issues**

1. The European Structural and Investment Funds (ESIF) Programme is a seven year programme that can support a range of economic development, skills, environmental improvement and social inclusion activities. The Leeds City Region has one of the largest allocations totalling circa £340m, with expenditure continuing until 2023.
2. The programme is now open, with opportunities to bid for funding to deliver against key priorities, and the Council must be in a position to respond quickly and effectively as these opportunities are published, and be able to enter into contracts for successful project applications.

**Recommendations**

3. Executive Board is requested to:
  - i) Note the summary of the European Structural and Investment Funds(ESIF) programme and the progress made to date in developing projects within the Council.
  - ii) Authorise Council expenditure for Ad:Venture Enterprise Growth Programme of £345,000 and for the Digital Enterprise Project of £70,000, a total of £415,000.

- iii) Authorise the Director of City Development to enter into contract with the relevant ESIF Managing Authority for the Ad:Venture Enterprise Growth Programme and the Digital Enterprise Project.
- iv) Note that future outline applications for ESIF projects will be submitted by the relevant Director under their delegated authority and in consultation with the Executive Member. Executive Board approval will be sought prior to entering into any contracts for successful ESIF applications.

## **1 Purpose of this report**

- 1.1 To update Executive Board on the ESIF Programme for Leeds City Region and provide information on progress made by the Council in developing projects.
- 1.2 To seek approval to enter into contract for two early projects currently under consideration by the ESIF managing authority – the Ad: Venture Enterprise Growth Programme and the Digital Enterprise Project.
- 1.3 To seek authorisation to spend £415,000 for the Ad:Venture Enterprise Growth Programme and the Digital Enterprise Project. Funding for this has already been identified in the Council's Capital Programme and City Development's Revenue budget 2016-19.
- 1.4 To seek authority to spend up to £11.08m EU funds and up to a further £11.08m of partnership funds on the Ad:Venture Enterprise Growth Programme and the Digital Enterprise Project, subject to the receipt of funding approval from the ESIF managing authority.

## **2 Background information**

- 2.1 The European Structural and Investment Funds Programme is a seven year programme that can support a range of economic development, skills, environmental improvement and social inclusion activities. The Leeds City Region has one of the largest allocations totalling circa £340m, with expenditure continuing until 2023.
- 2.2 The ESIF allocation is made up of three different funds: European Regional Development Fund (ERDF) and European Social Fund (ESF) and a small allocation of European Agricultural Fund for Rural Development (EAFRD). Appendix 1 sets out the types of activity which can be funded by each of the different funds within the programme. There are ten overarching priorities or 'thematic objectives', described in the ESIF strategy. Appendix 2 summarises the funding allocation agreed for each thematic objective and the programmes of activity proposed in the ESIF strategy.
- 2.3 The ESIF Programme for Leeds City Region was launched in spring 2015 with Round 1 early 'calls' for specified ERDF proposals. Several calls for proposals were announced in the autumn with two further calls for ERDF funding expected in 2016. The timetable for ESF-related calls has not yet been published. The council needs to be in a position where it can respond effectively to all calls which most closely reflect local priorities.
- 2.4 The ESIF Programme can generally fund up to 50% of a total project costs, and 50% match funding is required from other sources. It must be 'clean' i.e. cannot contain any other European funding, but can comprise public match, private match, SME contributions, staff time and certain contributions in-kind.
- 2.5 Certain programme areas under Thematic Objectives 8, 9 and 10 are match-funded by 'opt-in' organisations, however the majority of the programme requires match-funding.

### **3 Main issues**

#### **3.1 Overview**

- 3.1.1 The ESIF Programme is now open and accepting applications. Areas of the programme requiring match funding operate on nationally publicised calls. Each 'call' remains open for up to 12 weeks for submission of applications which must be well-developed and deliverable, organisations who bid for the programme can be based anywhere in the EU.
- 3.1.2 Proposals are generally for large/strategic projects often covering the whole of Leeds City Region. Successful bids often need to comprise a range of partners, working collaboratively across geographical or thematic areas. Programmes will receive funding for a maximum of three calendar years with approvals continuing until late 2020 and delivery and expenditure until the end of calendar year 2023. The seven year timeframe of the ESIF Programme offers a significant opportunity for the council to plan ahead and deliver priorities over the longer term. ESIF represents one of the only funding regimes which offers multi-year projects over a programming period in excess of three years.
- 3.1.3 Parts of the programme where match funding is provided by either the Department for Work and Pensions, the Skills Funding Agency or the Big Lottery 'opt-in' mechanisms are publicised and managed separately through those organisations' standard procedures.
- 3.1.4 It is likely that there will be two calls for each of the identified priority programmes in the lifetime of the ESIF strategy, typically once every 3 years. So, if a call is missed, there may be no further opportunity to bid for several years. It is essential that the Council is in a position to respond quickly to published calls given the tight deadlines involved.

#### **3.2 ESIF Programme Thematic Objectives 1-6 (Innovation, ICT, SME Competitiveness, Low Carbon Economy, Climate Change, Environmental Protection)**

- 3.2.1 Appendix 2 summarises the programme activity areas under each of these thematic Objectives. Calls for proposals, seeking Outline Application submissions, under T1 Innovation, T2 ICT, T3 SME Competitiveness and T4 Low Carbon Economy were open during the latter half of 2015. LCC has led on applications under T2, T3 and T4, as an applicant and a key delivery partner. Appendix 3 provides a summary of these applications.

#### **3.3 Sustainable Urban Development (SUD) Strategy**

- 3.3.1 This is a sub-strategy within the ESIF programme, for specific programme activity under T3, T5 and T6. A total of 10% of the ERDF allocation (approximately £17m) has been set aside for site development, environmental protection and green infrastructure projects to support growth, link with other business support interventions and support development of skills, especially in key employment growth areas. The final LCR SUD was submitted to central government in September 2015, and it likely that the first calls for proposals for activity identified in this strategy will be announced in the spring.

### **3.4 ESIF Programme Thematic Objectives 8 – 10 (Employment, Social Inclusion and Skills – all ESF-funded)**

- 3.4.1 The majority of the calls for the next 2 years under T8 Employment and T10 Skills will be match-funded at source by Department for Work and Pensions or the Skills Funding Agency, although this situation will change as the discussions and decisions on devolution deals progress. The first call under T8 for the Back to Work Programme is match-funded by the Department for Work & Pensions (DWP) and will target benefit claimants. Leeds and Bradford local authorities will be submitting a joint proposal, and it should be noted that local authorities will be competing with national 'prime contractors' which are already delivering the DWP's Work Programme.
- 3.4.2 Proposals are being prepared and the intention in Leeds is to prioritise care leavers and people experiencing mild to moderate mental ill health, where research indicates there is considerable differential in numbers securing and retaining employment. If successful, the council will be able to enhance existing initiatives in Leeds.
- 3.4.3 The Local Flexibility for Reducing Unemployment programme under T8 requires match funding of 50%. Targeting individuals who are 18 years plus and unemployed, this call will support individuals to achieve sustainable employment through in-work support, building on the Headstart and Devolved Youth Contract delivery models. Given the scale of needs in Leeds, the restrictive nature and likely competition from 'prime contractors' under the Back to Work programme, this call offers the council a greater a chance of success of securing funds which can be more flexibly applied to local priorities. This call is expected before June 2016.
- 3.4.4 The first call under T10 Skills was issued in the autumn, by the Skills Funding Agency, for the programme to support young people not in education, employment and training. Applications were submitted in mid-December and the outcome will be announced in the spring. LCC is identified as a strategic partner in this programme.

### **3.5 T9 – Social Inclusion - Community Led Local Development (CLLD)**

- 3.5.1 CLLD programmes will support the delivery of small projects, delivered by community based organisations. CLLD must target areas falling within the top 20% most deprived LSOAs, with a functional geography including a population between 10,000 and 150,000. With a value of €3m public sector funding per programme, it is a comparatively small proportion of funding within the overall ESIF Programme.
- 3.5.2 CLLD can fund activities which underpin the development of the local economy and to support people into employment. There are 3 proposed areas based on deprived communities in inner Leeds. Each will require a (separate) Local Action Group (LAG) which will be responsible for developing a Local Development Strategy and leading any resulting CLLD programme and an Accountable Body to manage expenditure in accordance with the ESIF regulations.

- 3.5.3 Officers have been working closely with the third sector on this programme area. Applications for preparatory stage funding were submitted in November. If successful, these resources will be used to identify and establish the required local action group, identify the accountable body, and produce the Local Development Strategy. The outcome of these preparatory applications is expected during February and relevant Members will be consulted and involved in the development of the Local Development Strategy when the funding is approved.

### **3.6 Progress with Project Development to date**

- 3.6.1 Appendix 3 summarises all the projects in which the Council is currently involved and the stage in their development. Project development is already well advanced on seven major applications where Leeds is the lead applicant or a key delivery partner.

- 3.6.2 The detail in this section focusses on two projects led by City Development for which authorisation to enter into contract and authority to spend is sought.

#### **3.6.3 Ad:Venture Programme**

- 3.6.4 This is a partnership project led by LCC, on behalf of the LCR local authorities, the 2 Chambers of Commerce, 4 universities and the Prince's Trust. It will offer wrap-around support for pre-start up, new and young businesses up to 3 years old with growth potential. The programme will support around 1,200 young businesses with growth potential and create 2,400 new jobs across the city region via a substantial business start-up package including enterprise awareness, a comprehensive programme of business planning workshops, access to sources of finance including grants programmes, director development networks and incubator space. It is envisaged that around 25% of project activity and outputs will be delivered to Leeds-based businesses, with the balance of activity and outputs delivered elsewhere across the Leeds City Region geography.

- 3.6.5 This project has a total value of £13.76m, with £6.88m provided by the ESIF programme; £6.88m match funding will come from business contributions and partner sources. To ensure a basic level of provision in each district, a minimum cash contribution is being sought from local authorities of £1.2m. The minimum contribution requested from Leeds is £345,000, over three years from the start of delivery. Members will recall that, at the February Executive Board, the Council's Capital Programme included an allocation of £260,000 to match-fund this project, with the remaining £85,000 coming from the City Development Directorate revenue budget.

- 3.6.6 The full application was submitted for appraisal in December, and the outcome will be known by March 2016.

#### **3.6.7 Digital Enterprise**

- 3.6.8 This is another partnership project, led by LCC, in this case on behalf of LCR local authorities. It will provide an integrated programme of information, advice and financial support and a grants programme to encourage firms to take-up faster

digital connectivity and introduce enhanced ICT systems to improve business performance.

- 3.6.9 The 3 year programme has a total value of £8.4m, with £4.2m provided by the ESIF programme. All local authorities in the Leeds city region and the Leeds LEP have agreed to support the programme and will be contributing a total of £1 million of match funding, of which £70,000 has been included in the Capital Programme, as approved at February's Executive Board. The remaining £3.2m of match funding will come from business contributions. The project will help over 1000 eligible SMEs to achieve business growth through the exploitation of digital technology.

The full application will be submitted for appraisal in early March, and the outcome should be known by June 2016.

### **3.7 Future Projects**

- 3.7.1 The timescales for the ESIF Programme do not align with Council approval and/or Executive Board processes. Over the duration of the ESIF Programme, there will be further projects in which Leeds City Council will be involved. These are likely to be led by teams in Children's Services, City Development, Citizens and Communities and Environment and Housing.

- 3.7.2 We expect that these applications will be high-value and strategic projects which would require an Executive Board Decision. However, given the necessity of responding quickly, and the lack of alignment with Council processes, we are requesting that Executive Board delegate authority to the relevant Director, in consultation with the relevant Lead Member, to take all actions required to deliver projects funded in the future by the European Structural and Investment Fund programme.

This would typically include:

- approving individual projects to proceed within the ESIF programme,
- entering into a partnership agreement with project partners setting out the responsibilities of both parties
- entering into a funding agreement on behalf of project partners and any variations thereto,
- approving all other documentation required including grant, development and other agreements with third parties
- establishing a fixed term temporary staffing structure to support the delivery of the programme.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

- 4.1.1 The overall ESIF strategy for the Leeds City Region LEP area was subject to wide consultation across the city region during its development in 2013-2014 through large scale events, and smaller stakeholder sounding groups to develop programmes of activity under each thematic objective are continuing. The

progress of the strategy has been reported at LEP Board, Leeds City Region Chief Executives and Leaders Board meetings. Leeds City Council officers have been actively engaged from the outset of the ESIF strategy and programme development which began in 2013.

- 4.1.2 As part of the consultation process within the Council, briefings have been held with the Executive Member for Resources and Strategy, senior Finance Managers and Corporate Leadership Team.

## **4.2 Equality and Diversity / Cohesion and Integration**

- 4.2.1 At ESIF strategy level, the assessment of the strategy by central Government incorporated an assessment of a range of equality and diversity issues. Each individual project application also has to address gender and diversity issues and in certain areas of the programme, projects will have to set targets for women's and BME groups' participation, amongst others.

- 4.2.2 Both the Ad:Venture Enterprise Growth Programme and the Digital Enterprise scheme have few sector restrictions and can offer support and award grants and vouchers to SME businesses in any location in Leeds City Region. The potential issue around equality is to ensure that the schemes are well promoted and are taken up across the entire business population. The marketing and communication plan will set out the ways in which the projects will work to encourage engagement with the potential entrepreneurs and young business owners.

## **4.3 Council Policies and Best Council Plan**

- 4.3.1 The overall ESIF Programme complements the clear ambitions set out in the Leeds Growth Strategy which has been agreed by the Executive Board. ESIF aims to support local businesses by improving their competitiveness and helping to remove key barriers to future growth. Developing the business base in Leeds is essential to the Council in achieving its priorities to create more jobs and better employment opportunities for local people. A healthy business base is also critical to the Council's long term finances given the increasing importance of growing business rates income to sustain council services.

- 4.3.2 Funding for flood risk alleviation activity is eligible within the programme. However, it should be noted that there is a comparatively small amount of resource for such activity as it is not the main focus of the ESIF Programme's activity, and other European funding programmes are available, such as the European Union Solidarity Fund which has substantial resources set aside to support European Members States in the aftermath of natural disasters. However, at the time of writing, the UK government is currently not pursuing an application to this fund.

- 4.3.3 Approval has been given by Executive Board for Leeds to bid to be European Capital of Culture in 2023 which falls within the seven year ESIF timeframe. The ESIF Programme complements the principle that the Leeds 2023 ECC bid and future programme of activity coming out of it should involve and benefit all the communities of Leeds, whilst also bringing benefit to the wider regional, national



and international communities. Funding proposals may come forward linked to the European Capital of Culture bid where the activities centre on the economic development, skills, environmental improvement and social inclusion activities which are eligible under the ESIF criteria.

#### **4.4 Resources and value for money**

- 4.4.1 In the current financial climate, funding available to deliver against key priorities, especially revenue activities, is diminishing. The ESIF programme is the largest and perhaps the only revenue opportunity available capable of making the level of impact necessary in Leeds.
- 4.4.2 The ESIF Programme therefore provides a genuine opportunity for the Council. It is a significant source of external grant funding which can contribute between 50%- 100% of the costs of projects which we want to deliver, and at minimum, it can double the resources available.
- 4.4.3 The financial benefits to the city can be illustrated by the example of the Ad:Venture Programme, in which it is estimated that for every £1 invested by LCC as match funding, the city will receive at least £10 of project related investment.
- 4.4.4 Given the scale of the funding available, and the long-term nature of the opportunity presented, the Council must therefore be ready to respond effectively to calls for proposals.
- 4.4.5 The programme presents challenges for the authority in terms of staffing, and ensuring that in the current climate of ever-decreasing funding that we have the appropriate skills and expertise. If these applications are successful, resources will need to be identified to manage these contracts, and in certain cases, will require external recruitment for specialist posts where the Council lacks the capacity or expertise.

#### **4.5 Legal Implications, Access to Information and Call In**

- 4.5.1 There are no significant legal issues relating to this report, which is subject to Call-In.

#### **4.6 Risk Management**

- 4.6.1 The ESIF programme is the largest and perhaps the only revenue opportunity available capable of making the level of impact necessary in Leeds. It is one of a few real source of funding which can support the delivery of projects which focuses on economic development, business support and skills, and which can make a genuine impact on the growth of the city's economy. Not engaging effectively could jeopardise the delivery of key priorities and targets within the Best Council Plan 2015-20.
- 4.6.2 There are risks involved in taking part in this programme and risks for the Council in taking on the role of lead authority in an ESIF project. The risks relate the requirements for EU funding, which are different to those of national and local government, and include procurement, recruitment of staff and eligibility and the potential for clawback. However, risk mitigation measures are in place through the

partnership agreement and agreements with third parties will be drafted in such a way as to further reduce and mitigate these risks.

- 4.6.3 The Government recently announced that the date of the referendum on whether Britain should remain in the European Union will take place on 23 June 2016. It is too early to determine what impact a 'no' vote in the referendum would mean for all the European funding sources to which we can currently apply, including the ESIF Programme. However, in the event of a 'no' vote, there would still be a period of transition and negotiation of exit terms for the UK, which would involve all EU funding programmes, including ESIF.

## **5 Conclusions**

- 5.1 There is a clear rationale to engaging with the ESIF Programme and accessing additional funding to deliver interventions for the benefit of Leeds' businesses and residents.
- 5.2 The Council should continue its active involvement in ESIF consultation and stakeholder events to remain informed and to influence future strategy and activity of the programme, to ensure that the strategy remains relevant to the Leeds local context.
- 5.3 We should ensure that processes for the approval of ESIF projects within the Council are as streamlined as possible and consistent across Directorates.

## **6 Recommendations**

Members of Executive Board are recommended to:

- i) Note the summary of the European Structural and Investment Funds (ESIF) programme and the progress made to date in developing projects within the Council.
- ii) Authorise Council expenditure for Ad:Venture Enterprise Growth Programme of £345,000 and for the Digital Enterprise Project of £70,000, a total of £415,000.
- iii) Authorise the Director of City Development to enter into contract with the relevant ESIF Managing Authority for the Ad:Venture Enterprise Growth Programme and the Digital Enterprise Project.
- iv) Note that future outline applications for ESIF projects will be submitted by the relevant Director under their delegated authority and in consultation with the Executive Member. Executive Board approval will be sought prior to entering into any contracts for successful ESIF applications.

## **7 Background documents<sup>1</sup>**

7.1 None.

## **8 Appendix**

8.1 Appendix 1 – Summary of each EU fund within the ESIF Programme and associated potential activity

8.2 Appendix 2 – ESIF Programme Summary Table, based on ESIF Strategy (May 2014)

8.3 Appendix 3 – Summary of ESIF Applications in Development, highlighting LCC engagement with the ESIF Programme.

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.