

D2N2 European Structural Investment Fund 2014-2020

SUMMARY

- 1.1 The EU Structural Investment Funding Strategy 2014-2020 (ESIF) Programme promotes sustainable economic growth and will be delivered through the D2N2 Local Economic Partnership (LEP). The ESIF Programme has been operating for just over a year with the first calls issued in March 2015.
- 1.2 The Council has been working with partners to develop collaborative proposals to the European Regional Development Fund to respond to ESIF calls. The report provides an update of where projects are within the appraisal/approval system and the next steps in the contracting process.
- 1.3 The Council has been approached to be a Partner within the Building Better Opportunities – Towards Work Programme by Groundwork Greater Nottingham. The report details Groundwork's request for the Council to employ and host a Stakeholder Manager.
- 1.4 Following the EU Referendum decision, in August the Government confirmed that projects with Funding Agreements or contracts in place before the Autumn statement, will be funded – even if projects will continue beyond the UK's exit from EU. The impact of the Autumn Statement deadline is that the timescale for full applications to be contracted has been significantly shortened.

RECOMMENDATION

- 2.1 To agree for the Council to accept the ERDF grant for the projects detailed in Section 4.
- 2.2 To agree the Council's match funding contributions to ERDF projects detailed in section 4.
- 2.3 To agree the Council's match funding contribution of £187,000 to the Derby and Derbyshire Energy Efficiency project from the Climate Change Reserve.

- 2.4 To delegate to the Strategic Director of Communities and Place, the Director of Finance and the Director of Governance, the agreement of the final approval of Partnership/Collaboration Agreements for the projects detailed in Section 4, following consultation with the Cabinet Member for Communities & City Centre Regeneration.

REASONS FOR RECOMMENDATION

- 3.1 The Council has worked collaboratively with partners across D2N2 to submit ERDF proposals. For the projects detailed in Section 4, the Council is a Delivery Partner, contributing match funding and delivering a key element of a wider project. While other partners are taking on the Accountable Body function for projects and will need to sign the Funding Agreement with DCLG, the project governance structures require the Council to enter into a Partnership or Collaboration Agreement for each project. The Council will be required to sign the Agreement which will set out;
- responsibilities of all Delivery Partners
 - project governance arrangements
 - risk apportionment
- 3.2 Agreements are currently in draft form and it is proposed that consideration and agreement of the final Partnership Agreement is delegated to the Strategic Director of Communities and Place, the Director of Finance and Director of Governance following consultation with the Cabinet Member for Communities & City Centre Regeneration.
- 3.3 In order to secure ERDF support, a 50% match funding contribution is required. Section 4 details the Council's match funding contributions to ERDF projects.



SUPPORTING INFORMATION

- 4.1 The Council is a Delivery Partner within a number of ERDF projects, a summary of each project, match funding contributions and project deliverables are detailed below;

4.2 **Encsite Phase 2**

The project will assist 110 companies in transport equipment manufacturing (TEM) supply chains to review their current business operations, and capacity, and provide a package of business support activities and events. It will complement other local and national business support activities by adding value within the existing referral network.

This project will strengthen SME competitiveness by building the business capability and capacity of SMEs in, or wishing to join, local TEM supply chains. The project will both extend the reach of SMEs *along* the TEM supply chain and *across* into other sectors for improved business resilience to stimulate higher productivity, business growth and to create jobs.

The University of Derby is the Accountable Body for the project, Aston University and the Council are Delivery Partners. The University of Derby has issued a draft Collaboration Agreement to the Council and officers are currently reviewing the draft agreement.

The Council is providing Match Funding, but will not deliver the Encsite service. The Council will be involved the project governance as a Project Board member.

Project Financial Information

- The total project cost is £1,400,000, with ERDF supporting 50% of the project costs.
- The Council's match funding contribution is a grant of £240,000, the funding is committed from DEGF recycled loan funding – ring fenced within the DEGF cashflow. There is a requirement for the University to deliver a minimum of 30 new jobs created through the Encsite Phase 2 project, contributing to the DEGF jobs target.
- The project will operate for a three year period.

4.3 **Derby and Derbyshire Energy Efficiency Project (D2EE)**

D2EE is a comprehensive low-carbon support and energy efficiency grants programme for small and medium sized businesses across Derby and Derbyshire.

The project enables businesses to:

1. improve their competitiveness by reducing their energy costs;
2. attract new customers through networking events and activities;
3. develop low carbon products;
4. improve their own green credentials enabling them to access low-carbon supply chains.

D2EE will reduce the carbon emissions of business activities, products and processes by providing energy efficiency audits and 200 grants (up to £15,000), access to state-of-the-art equipment and cutting edge technical expertise to foster improvement and innovation.

The University of Derby is the Accountable Body for the project and the Council is a Delivery Partner, managing a team of four staff, on behalf of both the City and County Councils. These Officers will cover Derby and Derbyshire, offering energy audits, guidance and energy efficiency grants to small and medium businesses. Through the project the Council will support 150 businesses resulting in an estimated 313.5tCO₂ greenhouse gas reduction.

The University of Derby will provide low carbon coaching, accreditation and technical expertise and equipment for low carbon product development and prototyping. While both Councils' aspects of the project will be limited to Derby and Derbyshire, the University's elements will be primarily focussed on Derby and Derbyshire, however their activities cover the whole D2N2 LEP area.

Project Financial Information

- The total cost of the project is £4.67m, with 50% of the project costs supported through ERDF.
- The Derby element of the project - £ 1.5m including £ 1.1m for grants (50% ERDF, 50% private match from businesses receiving grant).
- Derby City Council Match Funding - up to £187,000 from the Climate Change Reserve.
- Derbyshire County Council confirmed Match Funding - £187,000 to be paid directly to the Council to deliver the Derby and Derbyshire element of the project.
- The project will operate for a three year period from 1st November 2016 – 31st October 2019.

4.4 **D2N2 Growth and Innovation Programme (D2 EGF)**

The D2N2 Growth & Innovation Programme will help to stimulate economic growth, employment and innovation in the D2N2 area by providing grants to small and medium enterprises that want to grow, innovate and create sustainable new employment. The D2N2 Growth & Innovation Programme brings together three grant schemes that between them cover the whole of the D2N2 area. The grant schemes are:

- University of Derby Invest to Grow Programme
- University of Nottingham N2 Business Growth Programme, and
- Derby City Council D2 Enterprise Growth Fund.

The Derby and Derbyshire Enterprise Growth Fund (D2EGF) will provide funding and support for more SMEs. DEGF is currently limited to Derby's Travel to Work area. The new fund will create at least 250 new direct jobs and at least 39 companies will benefit from funding support. ERDF funding will enable the fund to be delivered across the whole of Derby and Derbyshire and increase the number of grants that can be awarded by through the D2EGF Fund.

The project will part-fund existing DEGF staff (Fund Manager, Fund Officer, Programme Support Officer) plus new post (proposed D2EGF Fund Officer).

East Midlands Business is the Accountable Body for the project and the Council, along with the University of Derby and University of Nottingham, are Delivery Partners within the project.

Project Financial Information

- The total D2EGF element of the project costs – up to £3m (50% ERDF - £1.5m)
- Council match funding - £1.1m from DEGF recycled loan funding, in the form of grant funding, ring fenced within the DEGF cashflow.
- Derbyshire County Council confirmed match funding - £400,000 to be paid directly to the Council to deliver D2EGF.
- The project will be delivered over a three year period.

4.5 **Building Better Opportunities – Towards Work**

Groundwork Greater Nottingham is the successful delivery body for the Building Better Opportunities (BBO) Towards Work Programme. The programme is jointly funded by the Big Lottery Fund and European Social Fund. The purpose of the programme is to support disadvantaged and excluded people across D2N2 to address the barriers they face to achieve stability, as a vital first step towards gaining employment. Groundwork has asked each upper tier Local Authority within D2N2 to employ a BBO Stakeholder Manager. The BBO Stakeholder Manager will contribute to the overall success of the BBO Programme by engaging and working collaboratively with a range of Public, Private and Third Sector stakeholders to ensure the BBO Programme is effectively delivered across D2N2. The post will act as the main interface to advise and inform the Employment & Skills Strategy Boards for N2 & D2, with the aim of bringing together all EUSIF and Employment related stakeholders and services within D2N2.

The salary and all associated cost will be met through the BBO Towards Work Programme.

The Partnership Agreement and Job Description for the post has very recently been received and further work is required to consider the responsibilities of the Council in signing the agreement and, if agreed, where the post should be positioned within the Council.

OTHER OPTIONS CONSIDERED

- 5.1 The options as to how the Council should respond to the D2N2 ESIF Programme calls were considered as part of the original approval to work with partners to submit full applications (October 2015).

This report has been approved by the following officers:

Legal officer Financial officer Human Resources officer Estates/Property officer Service Director(s) Other(s)	Emily Feenan – Principal Lawyer Toni Nash – Head of Finance Organisation and Governance David Cox – Head of HR Jane Sowerby-Warrington - Head of Strategic Asset Management and Estates Andy Hills – Climate Change Manager, Greg Pickup – Senior DEGF Manager, Alan Smith – Head of Economic Regeneration
For more information contact: Background papers: List of appendices:	Emma Dann 01332 643047 emma.dann@derby.gov.uk None Appendix 1 – Implications

IMPLICATIONS

Financial and Value for Money

- 1.1 In signing Partnership Agreements the Council is committing match funding to deliver ERDF projects. Details of the match funding sources are set out below;

DEGF – The fund is now operating as a recycled fund with loan repayments used to support businesses to grow and create new jobs. A DEGF cash-flow has been prepared which provides a profile of actual and forecasted DEGF loan re-payments, existing commitments, anticipated future commitments and ESIF match funded projects. £12m is expected to be repaid to the Council and it is proposed to use up to £1.34m over a three year period (2016-2018) as match funding to support D2 Enterprise Growth Fund (£1.1m) and Encsite Phase 2 (£240,000). The availability of these funds is dependent upon the current loans being repaid. There is a risk that the current loan repayments will default and match may not be available. However the fund is managed on the basis that grants and loans are committed and drawn down when the funding is available within the DEGF cashflow, the D2 EGF project will be managed on this basis. ERDF match funding contributions are ring fenced within the DEGF cash-flow, however there is a risk that if there is a high level of default the match funding will not be available to the Encsite 2 project. The Encsite 2 Partnership Agreement will confirm that the match funding contribution is dependent upon the availability of DEGF recycled loan funding.

If the DEGF recycled loan funding is not available the Council would need to take the following action;

- deliver a smaller D2 EGF programme in line with available recycled loan funding available.
- The University of Derby would have to deliver a smaller Encsite 2 project or underwrite this element of match funding themselves.

The use of DEGF loan re-payments has been agreed with BIS (as Regional Growth Fund funding body).

Climate Change Reserve – This reserve is ear marked to support projects in line with the Council's Climate Change ambitions. It is proposed to use £187,000 over a three year period as match funding for the D2 Energy Efficiency project.

- 1.2 **Building Better Opportunities** – All of the costs associated with employing the BBO Stakeholder Manager will be met through the BBO Programme. There will resource implications for the Council in managing the post.

Legal

- 2.1 There are a number of legal implications for the Council as a Delivery Partner within EU funded projects. The Accountable Body for each Project will enter into a Funding Agreement with the relevant Central Government Department, which will govern, *inter alia*, the payment of the grant to the Accountable Body and a requirement on the Accountable Body to enter into a Partnership Agreement with each of its Delivery Partners.

Through the Partnership Agreements, the Accountable Body transfers responsibility for compliance with the Funding Agreement to the Delivery Partners. In addition, the Partnership Agreements govern:

- provision of match funding;
 - responsibility for the financial management of ESIF funding;
 - establishing compliant monitoring systems and procedures;
 - Delivering and reporting on agreed programme outputs.
- 2.2 The Council has experience of managing complex externally funded programmes and has established robust systems and procedures to manage the responsibilities associated with fulfilling the responsibilities detailed in 2.1.
- 2.2 Legal Services are being consulted on the draft Partnership Agreements and inclusion of a clause within the Enscite 2 agreement to confirm that the match funding contribution will be dependent upon the availability of DEGF recycled loan funding.

Personnel

- 3.1 The D2 EGF will part fund existing DEGF staff (Fund Manager, Fund Officer, Programme Support Officer) plus require the recruitment of a new post (proposed D2EGF Fund Officer). The D2 Energy Efficiency will be delivered by a team of four based with the Council. HR have been consulted to the Personnel implications and there will be ongoing consultation as the Job Descriptions are prepared and recruitment commences.
- 3.2 The cost associated with the staff recruitment and salaries has been included within the projects.
- 3.3 If the Council agrees to the BBO Partnership Agreement, we will be responsible for the recruitment and employment of the BBO Stakeholder. HR will be consulted on these arrangements.

IT

- 4.1 The Council is the recruiting organisation for a number of staff required to deliver the ERDF funding projects. There will be a requirement for IT equipment and use of DCC information systems facilities. The cost associated with providing ICT equipment and facilities has been built into the project costs.
- 4.2 As a delivery partner the Council will need to ensure consistent collection and reporting of beneficiary information and ensure activity is joined up with other service provision across the D2 and/or D2N2 area. Existing established EU monitoring systems will be used to ensure the compliant collection and storage of financial and output information to support ERDF monitoring and claims. These systems have been verified as compliant through previous EU audits.
- 4.3 The final Partnership Agreements will include an appropriate data sharing agreement and the working practices established to ensure compliance with the Data Protection Act.

Equalities Impact

- 5.1 The ESIF programme seeks to reduce social and economic disparities by supporting businesses and addressing skills employment and social inclusion. In accessing ERDF funding the Council will deliver activity and support to businesses to help growth, expansion and job creation across the city. One of the ESIF Programme cross cutting themes is Equality and the impact of projects on this issue has been considered as part of the assessment process.

Health and Safety

- 6.1 None directly arising from this report.

Environmental Sustainability

- 7.1 The D2 Energy Efficiency project will help local businesses improve their resource efficiency and will also present opportunities within the growing low carbon sector. Developing the low carbon economy is a key priority of the City's Climate Change Strategy.

Property and Asset Management

- 8.1 The projects identified within this report are not capital projects and there are no direct property and asset management issues.

Risk Management

- 9.1 There is a risk to the Council associated with utilising the recycled DEGF fund as match funding contributions to ESIF projects, as the ability to provide the match is dependent on DEGF loan repayments from businesses over the next three years. If

there is a high level of default the Council may need to meet the match funding contribution. The measures in place to manage this risk are set out below;

- the fund is managed on the basis that grants and loans are committed and drawn down when the funding is available within the DEGF cashflow, the D2 EGF project will be managed on this basis. If the DEGF recycled loan funding is not available the Council would deliver a smaller D2 EGF programme in line with available recycled loan funding available.
- The Ensco 2 Partnership Agreement will confirm that the match funding contribution will be dependent upon the availability of DEGF recycled loan funding. If the recycled loan funding is not available the University of Derby would have to deliver a smaller scheme or underwrite this element of match funding themselves.
- DEGF loans have enforceable security in place and therefore the Council could re-coup default DEGF loans from companies by realising its security, so as to enable it to meet match funding commitments.
- A greater level of monitoring is implemented for high risk DEGF companies or where large loans have been awarded to ensure early intervention and action if a problem arises.
- DEGF repayments and commitment levels are closely monitored to ensure cash-flow is effectively managed. An internal DEGF cash-flow review meeting is held bimonthly involving the Strategic Director of Communities and Place, Director of Finance, Head of Finance, Head of Service for Economic Regeneration, RGF Programme Accountant, RGF Programme Manager and the Senior DEGF Manager.

9.2 ESIF funding is paid in arrears, on evidence of defrayal and on a quarterly basis. Therefore the Council will need to bank roll the ESIF projects it is involved in. The Council has previously delivered a number of ERDF supported projects (examples include Innovation Centre, Marble Hall, BESPOKE business support) and cash-flows projects between claims. The risk to the Council is mitigated by;

- Implementing robust systems and procures to ensure a clear audit trail to evidence project expenditure and defrayal.
- Dedicated staff resource to effectively manage and monitor ERDF projects.

9.3 As a Delivery Partner within ERDF projects, the Council will be responsible for any non-compliance or under-performance from activity we deliver. This could expose the Council to the risk of clawback.

This risk would be managed through the following measures;

- introduce compliant performance management systems
- ensure there is sufficient capacity within the Council to effectively manage and monitor projects. The cost of which would be met from within the project budgets.

Corporate objectives and priorities for change

10.1 The ERDF projects detailed in this report will contribute to the Derby Plan objectives;

- a place where people are safe and the vulnerable are put first and supported.
- a place where people work together, can enjoy good health and wellbeing

throughout their life and feel that they belong to a thriving community.

- a place where we support our children and young people to achieve their full potential, skills are valued, jobs and businesses are growing and we have the infrastructure to create a city for the future.towards creating for the people of Derby: