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**Chair: Local ESI Funds Sub-committee**

**RE: Management of the ESF England 2014-2020 programme**

Dear Sir/Madam

**Notification of the Adoption of the revised Operational Programme and confirmation of LEP area revised Notional Allocations**

Further to my letters of 22 August and 14 September I am writing to inform you that, following the mid-term review of the ESF Operational Programme (OP), our revised OP has been adopted by the European Commission. The full document has been published on GOV.UK and can be accessed by clicking [here](#).

The mid-term review of the ESF OP focused on:

- reviewing policy approaches to ensure the programme going forward is evidence based and builds on current and future policy direction;
- a review of current OP text to correct a number of discrepancies, adjust allocations and assess any impact on targets;
- reflecting on performance to date and whether current assumptions should remain or be adjusted.

This involved consultation with a range of stakeholders, including Ministers, Co-financing Organisations and Policy colleagues in DWP and other Government Departments. We also consulted Growth Programme Board on our proposals and gathered a variety of evidence from local organisations.



We set out at Growth Programme Board in October 2017 and again by written procedure in June 2018 broadly what has changed. A summary of the main changes is provided in Annex A.

This means I am now able to confirm the revised notional allocations for your LEP area. I have attached these in Annex B by way of confirmation. The vast majority are as set out in my letter of 14 September, with some minor amends which we have discussed with affected areas.

As part of reviewing the OP we have aimed to ensure that financial allocations match demand as closely as possible. Alongside this, the review has also focussed on ensuring that output and results targets are appropriate and reflect the revised notional allocations. These are also provided in Annex B and reflect the messages contained in my previous two letters.

As set out in my letter of 14 September, as part of our responsibility to manage the financial risk of hosting the Managing Authority within DWP we need to monitor the value of Sterling against the Euro, and what that means for notional allocations. This means that should there be a significant change in either direction we would need to review and consider revising notional allocations.

I hope the confirmation of your notional allocations as set out in Annex B will help you and your local partners to firm up plans for committing the additional funds to best meet local priorities.

As I set out in my letters to you dated 14 and 28 September, we are now looking to LEP areas to confirm ability and plans to commit funds for the remainder of the programme. We are therefore requesting LEP areas develop plans and call templates over the coming weeks to share with their LEP Leads by the first week in December. Whilst the deadline for committing funds is not finalised, we expect it to be in the latter half of 2019. At that point (or sooner if LEP areas indicate they are unable to commit funds in their area) we will look to bring together any uncommitted funds to form a Reserve Fund. As mentioned in my earlier letters this would enable local funding to continue to be committed, and should facilitate easier commitment for any remaining small pockets of uncommitted funding. We continue to develop Reserve Fund criteria including how funds can be applied for and the process the MA will use to consider any applications for funding.

We look forward to working with you as we move into a new phase of the ESF programme, with further funds available for local investments and a refocusing on policy and programme priorities.

Yours sincerely,

Catherine Blair

**Head of European Social Fund Division**



## Annex A

### Mid-Term Review of the England ESF Operational Programme

#### Principles Agreed with Growth Programme Board

The Managing Authority (MA) undertook a thorough review of the Strategic Chapter of the Operational Programme (OP) ensuring that all text matched current government policy. This included using the latest available labour market data to support policy assumptions and future expected demand for support.

The MA focused on ensuring that notional allocations match demand. Therefore, money that has already been identified as being unlikely to be spent will be recycled within the same Priority Axis.

#### Summary of Main Changes

##### General Allocations

Historically, the OP has had a number of inaccuracies within its financial allocations at Investment Priority (IP) level. These mostly stem from when the OP was first written and adopted. The majority are well established and have been discussed with LEP areas and Growth Programme Board several times. The intention has always been to correct these issues when the OP was reviewed. This modification codifies many of the IP allocations that LEP areas will already be familiar with.

The corrections include a switch of €15.3m between ESF and ERDF, which affects the Less Developed and More Developed regions. It also includes the Mid-Term Adjustment funds. These have been applied to allocations in a largely proportionate way in accordance with what the European Commission agreed as part of the “Stage 1” OP modification adopted in December 2017.

##### Reallocate the remaining Community Led Local Development (CLLD) budget across PA1

The demand from local areas for CLLD investment has been lower than predicted, so part of the CLLD allocation was unspent. Not all LEP areas have CLLD, so to ensure that LEP areas who do have uncommitted CLLD (in IP 1.5) do not lose out, any recycling of allocations is contained within PA1 (IPs 1.1 to 1.4) in those LEP areas.

##### Youth Employment Initiative (YEI)

Amendments to the Operational Programme reflect the potential to continue to spend YEI after the original 2018 deadline. This change has been widely communicated already and does not change the position that this is subject to achievement of programme targets with which LEP areas are familiar. The OP modification merely makes the necessary technical changes in the document to allow that position to occur.



There is one minor change in the YEI allocation, due to an error in the original OP. In Liverpool City Region, Halton was erroneously categorised as Transition with the rest of the City Region. In reality it is a More Developed area and therefore subject to a different intervention rate. Correcting this minor error increases the overall YEI figure, once ESF and Match is included.

### **Change the definition of PA2 to remove the inference that the priority axis only targets employed people**

Evidence suggests an on-going and potentially increased demand for skills provision. This reflects the impact of the rollout of Universal Credit and skills gap analysis to reflect more fluid movement between out-of-work and in-work, and the need to ensure skills provision reaches those who need it. The headline definition of PA2 has been changed to remove the inference and historical use of the priority axis for ONLY employed participants, whilst maintaining the difference in underlying aims between PA1 and PA2 (equipping people to be able to take up a job versus equipping people and SMEs to progress).

### **Change how the Programme supports Apprenticeships**

The introduction of the Apprenticeship Levy in 2017 has altered how Apprenticeships in the UK are funded. Employers with a wage bill over £3m per year are required to pay an Apprenticeship Levy from which the training costs associated with an Apprenticeship are funded. However, the wage costs for an Apprenticeship have to be paid by the employer. The modified OP enables payments out of the Apprenticeship Levy which fund apprenticeship training to be eligible for match funding purposes. Grant Recipients who are required to contribute to the Apprenticeship Levy **cannot** claim their contribution as a direct salary cost as the contribution does not form part of an employee's salary package. [More detail on the use of the Apprenticeship Levy as eligible ESF match is provided in ESF Action Note 006/17 published on Gov.uk.]

### **Revisit and update Unit Costs**

It was necessary to make a number of assumptions at the start of the programme about the nature of unit costs we would face. The assumptions were based on a combination of the best evidence available at the time and approaches applied in the previous programme. We reviewed these assumptions to ensure their validity and, where appropriate, have adjusted them to reflect the current evidence available to us.

### **Revisit the target structure**

#### Output Targets

As with unit costs we made a number of necessary assumptions about the nature of ESF participants at the start of the programme. These were based on our experience of the previous programme and the best evidence available at the time. We have reviewed these assumptions and, where appropriate, updated them using labour market data on the groups adjusting for the type of area that ESF operates in.



As LEP areas will be aware, output targets are largely a function of allocations. Therefore, as unit costs and allocations have changed then so will output targets. This approach is reflected in what most LEP areas are already working to. However, there will be subtle differences to the targets LEPs currently hold and what the OP sets out as a result of all the changes we have made.

### Result Targets

In reviewing our assumptions around results targets, we did not find any conclusive evidence to change them. Therefore, they remain – in percentage terms – as in the original OP. As volumes of participants and outputs have changed to reflect revised programme allocations and assumptions elsewhere, the volume of results will also adjust. The percentages, however, remain unaffected.

### Financial Targets

Compared to the original OP the financial targets have changed in two ways. The Financing Plan (showing N+3) has changed to reflect the €15.3m switch mentioned above and the increase in the overall Euro value of the programme arising from the Mid-Term Adjustment.

We have also revised the Performance Framework financial and output targets. This is to reflect the Investment Priority-level changes to the allocations we are making and the erroneous assumptions that would have led to the underestimation of milestones in PA 1 and overestimation in PA 2.



## Confirmed Uprated LEP Area ESF Notional Allocation and Outputs by Investment Priority

### Category of Region: More Developed

LEP							
Derby, Derbyshire, Nottingham and Nottinghamshire,							
	1.1	1.2	1.3	1.4	1.5	2.1	2.2
Allocation (Euro)	€ 30,000,000	€ 11,391,356	€ 9,600,000	€ 24,045,047	€ -	€ 39,697,647	€ 8,738,709
Alllocation (Sterling)	£ 26,100,000	£ 9,910,480	£ 8,352,000	£ 20,919,191	£ -	£ 34,536,953	£ 7,602,677
Participants	31,081	11,577	3,319	12,991	-	35,264	897
<u>Outputs</u>							
CO01 - Unemployed	19,268	7,363		6,195	-		
CO03 - Inactive	10,260	3,634		6,146	-		
O4 - 50+	5,042			1,945	-	5,462	
CO15 - BME	4,309	1,746	1,058	2,088	-	3,664	
CO16 - Disability	6,640	1,730		2,903	-	3,155	
O6 - Basic Skills	4,923	2,242				5,532	
CO14 - Lone Parents	3,887	809				1,763	
YEIO8 - Under 25			2,453				
YEIO3 - 25-29			866				
YEIO9 - Unemployed			2,453				
YEIO10 - LTU			866				
YEIO11 - Inactive			866				
YEIO12 - Disabled			1,058				
YEIO13 - Lone Parents			1,452				
O7 - Ex-Offenders				-			
Female	14,951	5,497	1,029	5,148	-	17,018	
Male	16,131	6,080	2,290	7,843	-	18,246	