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Department for Work & Pensions

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

Dear Colleague

The March European Council endorsement of the latest draft of the Withdrawal Agreement means, subject to final agreement, we will continue to participate in EU programmes until their end (2023).

In line with this, the Managing Authority (MA) for ESF in England is working to commit the full value of the programme to maximise local growth, employment, education and social inclusion opportunities and ensure that we maximise potential to achieve the 2023 performance framework expenditure targets. As you are aware, any financial risks associated with actions taken to meet this objective sit with DWP as the host of the MA.

As was set out to the Growth Programme Board (GPB) in June, the MA intends in the short term to uprate the current value of LEP area notional allocations to better reflect the current exchange rate and to release additional sterling notional allocations across LEP areas. I can confirm that current notional allocations will be uprated using the exchange rate of €1=£0.87.

I am aware that ERDF colleagues have recently confirmed a programme uprate of €1=£0.9033. The approach we are taking for ESF to apply a lower exchange rate reflects the structure of the programme and its fundamental difference to ERDF. As you are aware, the ESF programme is delivered through a mix of national projects (delivered notably via HM Prisons and Probation Service) and more bespoke, locally driven projects contracted directly with the MA or through national co-financing organisations.

HM Prisons and Probation Service (HMPPS), currently delivering at profile, has submitted project change requests to extend their provision in time, quantity and space. This will ensure that valuable support to ex-offenders can continue to be delivered and will reach a larger part of the relevant population. The budget for this cannot realistically come from a LEP area notional allocation as the provision needs to be national for technical delivery reasons. However, of course the positive impacts of this provision will be felt at a local level and in communities as ex-offenders reintegrate.

Despite the significant additional investment this represents for the ESF programme, we have taken a view to nonetheless significantly increase the sterling notional allocations for LEP areas beyond what the current exchange rate would allow for following the project change requests from HMPPS. We recognise the systemic risk of projects underspending, particularly where onward procurement has been involved, and therefore want to maximise opportunities available to us now.

The rate as set out above will release an additional £315m of sterling notional allocations to LEP areas across England**.** This will enable LEP areas to continue to deliver provision and support to the most disadvantaged individuals helping them to improve their life and giving them the basic skills needed to enter the labour market.

Of course it is difficult, or impossible, to predict future exchange rate movements and the final position of the programme's sterling budget. To help mitigate this through economies of scale (rather than replicate the risk 38 times), in the medium term a Reserve Fund will be set up which will allow us to respond more flexibly both to exchange rate fluctuations and to demand in local areas.

Implementation and timing

At the point of writing, I am unable to formally confirm individual LEP area revised notional allocation figures: we have submitted our revised Operational Programme (OP) to the European Commission (EC) and are awaiting approval. Once approval is received the notional allocations will need to reflect the changes introduced.

However, I recognise LEP areas will be keen to understand the implications of the uprating on notional allocations and of the changes to the OP and to begin planning for how best to utilise additional funds.

The MA therefore plan to write to each LEP area individually in early September setting out the provisional revised allocations. It should be noted that the figures provided in September will be subject to change pending approval of our revised OP by the EC. I anticipate being able to formally confirm revised allocations during the autumn. My team stands ready to receive advice from LEP areas to determine how to make best use of available funds.

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Furthermore, we will be asking LEP areas to confirm ability and plans to commit funds within 12 months of the revised allocations being advised. At that point (or sooner if LEP areas indicate to us that they are unable to commit additional funds in a particular area) we will bring together uncommitted funds to form a Reserve Fund (as set out earlier in this note) from which further local funding can then continue to be committed.

I should also state that in the case of a strengthening of Sterling against the Euro, the MA will consider revising notional allocations as part of our responsibility to manage the financial risk of hosting the MA within DWP.

Transparent and clear criteria setting out how funds from the Reserve Fund can be applied for and the process the MA will use to consider any applications for funding are currently being developed. We will inform GPB as this work continues and will confirm when the criteria has been finalised.

Yours sincerely,

Catherine Blair