Lincolnshire COUNTY COUNCIL
Working for a better future

Policy and Scrutiny

Open Report on behalf of Richard Wills,
Executive Director for Environment and Economy

Report to:	**Environment and Economy Scrutiny Committee**
Date:	**17 July 2017**
Subject:	**Future Priorities for Funding Post Brexit**

Summary:

Lincolnshire has been successful in attracting regeneration funding –both from government and the EU- for a number of years.

As part of the Brexit process the government is committed to designing a new funding programme, to be known as the National Productivity Investment Fund. The National Productivity Investment Fund will replace EU funding. However, it will be combined with current government regeneration grants to create a single funding pot.

This paper will summarise the current European Structural and Investment Fund Programmes that are aimed at targeting economic need and Local Growth Deals focused around growth opportunity. It will also identify some of those questions that government officials are posing during the design process of the National Productivity Investment Fund.

Actions Required:

Members of the Environment and Economy Scrutiny Committee are invited to:

1) Discuss the priorities arising from the Strategic Economic Plan which will make the greatest difference to our area & where future investments should be targeted – *housing, transport, business, skills, water management, health, ICT, tourism;*

2) Discuss some of the mechanisms that should be used to achieve the level of growth that is necessary in Lincolnshire – *local accountability, single investment programme, sustainable investments;*

3) Task officers with producing a position statement on future funding, working closely with Greater Lincolnshire Local Enterprise Partnership and other partners.

1. Background

We need to look proactively at how we can work with government to shape the future funding when the UK officially leaves the EU. Given the changing political landscape we are currently operating in, there are many unknowns. However, there is one "known" which is that the government is committed to establishing a National Productivity Investment Fund. We are still able to make a case for what investments will be needed to make our local economy more prosperous in future years.

During the previous electoral term LCC created a Brexit Working Group of councillors whose role was to assess the impact of Brexit on Lincolnshire County Council, and on Lincolnshire more generally. The Brexit working group identified that tackling the changes to regeneration funding once the UK exits the European Union should be an issue that LCC should seek to address

The Greater Lincolnshire LEP has a vision to deliver sustainable economic growth focused around five priorities and drivers for success as outlined in their Strategic Economic Plan:

	Ambition	**Sector**
1	To drive the growth of the area's three defining and strongest sectors that offer the most competitive advantage	Agri-Food Manufacturing Visitor Economy
2	To grow specific opportunities identified as future defining	Low Carbon Ports & Logistics Health & Care
3	To drive this growth by putting expansion into new markets, modern telecommunications, infrastructure improvements and the skills of individuals and business owners	Skills & Employment Innovation Promotion
4	To promote Greater Lincolnshire as a place for sustainable growth through improved transport infrastructure, enabling wider enjoyment of our world-class heritage sites, culture and strong communities	Homes & Communities Transport
5	To recognise the need for new housing for the existing local population and those moving to the area, and to support balanced housing and economic development through promoting the area's capacity to deliver high-quality growth	Flood Risk & Water Management Infrastructure

To help scope where investments have been made in Greater Lincolnshire, the following is a summary to illustrate some of the current and most significant funding pots that have helped support our priority sectors:

European Structural and Investment Funds (ESIF)

Nationally, the UK is set to receive around £6.2bn of Structural and Investment Funds for the period 2014-2020. This is on top of other EU funding programmes such as Horizon 2020, the EUs Innovation and Research programme and farming subsidies.
The Greater Lincolnshire area has notionally been allocated approximately £116m of ESIF funding for the period 2014-2020. This allocation is made up of three main funding programmes: the European Regional Development Fund (ERDF) focused around economic development, the European Social Fund (ESF) supporting skills and the European Agricultural Fund for Rural Development (EAFRD) focused on rural development initiatives.

The Government has confirmed that it will guarantee EU funding for ESIF projects signed before the UK's departure from the EU, even when these projects continue after we have left the EU. Funding for projects will be honoured by the Government if they provide good value for money and meet domestic strategic priorities.

European Regional Development Fund (ERDF)

This fund is focused on activities that support Research & Innovation initiatives, enhancing the use and access of ICT, the competitiveness of SMEs, a shift towards a low carbon economy, flood risk management and protecting the environment.

Funds are focused on larger, more strategic projects. The Greater Lincolnshire notional allocation of ERDF funding for 2014-2020 is £62.2m where we have £42.1m under consideration of which £25.7m of projects have been contracted to date.

Example of Approved Schemes	ERDF grant requested	Sector supported
Centre of Excellence in Agri-Food, Holbeach	£4.2m	Agri-Food
Broadband Connectivity in Rural Areas	£1.5m	ICT
Business Lincolnshire Growth Hub	£2.4m	Business Competitiveness
Wrangle Sea Banks & Boston Haven Flood Defence Schemes	£1.5m	Flood Risk & Water Management

Positive Impact
Larger, strategic schemes are supported to help growth in local priority sectors.

Negative Impact
Funding is restricted to EU eligibility criteria & allocations against priority areas. Transport infrastructure and tourism are specific sectors that we can't support using these funds and low carbon activity where we do have funding is not aligned to activity we want to support.

European Social Fund (ESF)

This fund focuses on activities that support people in and out of work and businesses with skills provision and support for improving social inclusion and labour mobility. The Greater Lincolnshire notional allocation is £45m over the seven year period.

In order to bring forward projects for delivery, our local ESF allocation requires match funding at a rate of 40%. Three national organisations will provide some of this match funding so the area has chosen to 'opt-in' to their match funding proposals. This includes:

- Department for Work & Pensions – providing support & mentoring to unemployed individuals

- Big Lottery – helping individuals furthest away from the labour market to make steps towards employment

- Skills Funding Agency – providing skills training & qualifications to individuals who are in work and who are unemployed

Example of Approved Schemes	ESF grant requested	Sector supported
Skills Support to the Workforce (SFA)	£6m	Skills
Getting Into Work and other schemes to help the unemployed	£5m	Employment
Money Lincs (advice to unemployed people on managing their finances)	£0.5m	Community

Positive Impact
Maximising match funding opportunities to deliver skills and training programmes in the local area which would otherwise not have been delivered.

Negative Impact
National agents having a fixed method of delivery that don’t always translate to local needs or measurable benefits/outputs.

European Agricultural Fund for Rural Development (EAFRD)

This fund is part of the Rural Development Programme for England (RDPE). The amount of RDPE notionally allocated to LEP areas nationally only constitutes around 7% of the total RDPE budget. The notional allocation of EAFRD for Greater Lincolnshire is £8.7m for the seven year period and this is a nationally run programme.

A similar amount is invested in LEADER activity which is a bottom up approach to rural development where LCC has local accountability for the funding.

Funding is targeted directly at businesses to support investment in business diversification, food processing facilities, rural tourism, culture/heritage and rural services.

The remainder of the RDPE programme is focused on support for nationally run programmes such as Countryside Productivity and Environmental Stewardship.

Example of Approved Schemes	**EAFRD grant requested**	**Sector supported**
Automatic Flower Bunching Line	£130k	Manufacturing
Processing Line Automation for Spinach & Kale	£147k	Manufacturing

Example of Approved Schemes	**LEADER grant requested**	**Sector supported**
W Barratt & Sons Tractor Guidance System	£4k	Agri-Food
Ferry Ales Brewery	£39k	Tourism
Claythorpe Watermill Holiday Cottages	£41k	Tourism
Oxcombe Historic Farm Building Project	£25k	Tourism
Lincoln Jigs Ltd Machine Tool Procurement	£34k	Manufacturing
Aswarby Sawmill Woodland Forwarded	£6k	Low Carbon
Elnor Log Cabins Enterprise	£79k	Tourism
JH Dorrington LED Lighting	£10k	Low Carbon

Positive Impact
Funding is directly targeted to rural businesses and for the LEADER programmes, local accountability and project development support can be provided.
Negative Impact
Not being able to support technical skills in the agricultural sector.

Growth Deal Funding

Growth Deals (or Single Local Growth Fund) are providing support for local businesses, creating and safeguarding jobs, delivering strategic infrastructure schemes, developing hundreds of homes and investing in education.

Greater Lincolnshire has secured £180m of growth related funding. Our Growth Deal programme to date, having just completed a third competitive round of funding will deliver £311m of public and private investment, build 7,250 new homes, create/safeguard 7,100 jobs and deliver 483,180sq metres of new commercial floor space.

Example of Approved Schemes	Growth Fund grant requested	Sector supported
Boole Technology Centre	£6.7m	Business Innovation
Bishop Burton College	£7.5m	Skills
Unlocking Investment in Rural Housing	£3m	Housing
Holbeach Peppermint Junctions	£2m	Infrastructure

Positive Impact
Funding is allocated at the start of schemes so projects can evolve and have better strategic alignment to current/changing needs.
Negative Impact
Better options analysis of projects at the outset & ability to align with other schemes being developed in the area would give even greater strategic benefit.

Avoiding the pitfalls of the previous programmes

We need to ensure that government understands our economic geography and show that we can demonstrate impact, delivery and added value to all strategic investments made in our local area.

There are clear areas where we would have liked more investment (tourism, agricultural skills) but where funding criteria restrictions have not aligned to some of our local priority sectors.

There are also indirect factors that support growth which could include public realm and investment in community facilities like health or schools.

State aids and displacement of activity often mean that we have not been able to engage effectively with the private sector (especially with ESIF funds) where relatively modest amounts of funding could change a situation from being inviable for a private sector provider to it being viable. The British Business Bank's guarantees to underwrite high street banks' small business loans is an example of where a small amount of government funding is levering a much bigger amount.

BDUK grants are similar in that a small amount of state funding has unlocked a substantial investment in the superfast network by BT. These models could also support utility provision and housing where EU funding streams currently restrict revenue generation (or profit) so successful schemes can face grant repayment charges.

All of these points are challenges which funding administrators have sought to avoid in previous programmes. In designing new programmes there may be the opportunity to make it easier for the projects to be supported.

How do we make future funding investments work locally?

To grow a strong economy and sustainable community, funding needs to be able to support longer term investments. Single investment programmes, that provide a mix of capital and revenue, will allow for better strategic planning and programmes of activity to be delivered (this could be around place, sector etc).

Current funding has not been aligned, so greater local input and accountability in future funding will ensure that public and private investments are targeted to local economic need. Other funding mechanisms need to be explored against the investments being made so loans, off balance sheet investment bonds etc are other ways of raising capital by unlocking other investment schemes.

Programmes, like LEADER, that have given direct local support to businesses have ensured that our micro and SMEs have been able to access funding opportunities. The value of grant amounts tend to be lower (average around £40k) but the impact on the business and the community in which they are based can be significant. Aligning funds will mean that the reach will be felt further across our county.

We will need to demonstrate strong linkages to the Industrial Strategy and consider:

- People and skills
- Places – where people live, linkages to housing, business premises, infrastructure
- Enterprises – encouraging innovation and technology
- Connectivity – related to transport (rail, road, ports)

Reviewing the geographical impact of funds to a particular area could be a way of showing impact, value added and wider benefits of investment. For example in Holbeach:

- Growth Fund monies have helped to support the transport infrastructure (roads, servicing of sites and some capital developments) through the Food Enterprise Zone, Holbeach Peppermint Junction;
- ERDF has supported large scale strategic capital build activity (Agri-Food Centre of Excellence);

- EAFRD then supports agri-food businesses in the area through business development (Automated Flower Bunching Facility), food processing grants and technical skills;
- ESF for skills support for the local workforce aligned to what local businesses need, LEADER supports micro/SME supply chain businesses (Rookery Farm Packing facilities).
- Funds then need to be brought in to look at tourism, heritage, green infrastructure improvements etc. to tie all of this together for the area or place.

National perspective

Finally, the civil servants who have been tasked with designing the new National Productivity Investment Fund have circulated a number of questions to assist with their task. A small number of which are set out below:

- What are the key factors that lead to effective intervention in support of productivity and inclusive growth?

- Is there a case to raise or lower local discretion over funding allocation?

- How successful are formula vs. competitive approaches in supporting rebalancing objectives?

- What are innovative or effective ways to provide project funding (e.g. spending, lending, investing)? What types of intervention are they most appropriate for?

It is useful to understand that these are the sort of questions that government officials are exploring because that will help us to articulate what we need to address in our own recommendations on the design of the new funding programme.

2. Conclusion

In conclusion, the creation of a new fund to replace EU grants post-Brexit, and to rationalise the bidding process, is to be welcomed. It is early stages in the design of the new programme, but the early stages are the best time to influence the outcome. It would therefore be very beneficial to create a clear position statement which will help us to articulate Lincolnshire's requirements.

3. Consultation

a) Have Risks and Impact Analysis been carried out??

N/A

b) Risks and Impact Analysis

N/A

4. Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Justin Brown, Commissioner for Economic Growth, who can be contacted on 01522 550630 or Justin.Brown@lincolnshire.gov.uk .

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