



### **EU funding and the matching finance crisis**

## **£1 billion for English regions lying unspent**

- **European funding to the English regions now stalled**
- **Abolition of RDAs at heart of shortfall in matching finance**
- **Economic development projects badly held up**
- **Midlands, North East, North West and Yorkshire hardest hit**
- **Treasury set to claw back two-thirds of underspend**

**At a time of flagging economic growth and weak public finances, the money available from Brussels is a key tool to promote recovery in the regions.**

**In the present EU spending round (2007-13) £2.9bn from the European Regional Development Fund is available to promote investment and jobs in the English regions.**

**To draw the cash down, this money has to be matched by UK funding. Until their abolition, the Regional Development Agencies were the main source of matching finance in England.**

**Now that the RDAs are on their way out, the draw-down of EU funding has stalled. The government's plans to match EU money with funding from other sources are unconvincing. Nearly £1.2bn currently lies unallocated.**

**Under the terms of the UK rebate, the Treasury claws back two-thirds of any EU underspend.**

**The Treasury is therefore set to profit directly from funding intended to promote jobs and growth in England's most disadvantaged areas.**

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## Why EU funding matters

European funding matters because it provides a key source of support for economic development in the regions.

Many of the areas that are targeted have seen the run-down of major employers such as coal, steel, engineering and manufacturing more generally. They need help to re-build their local economies.

Substantial European money has been coming to the regions since at least the 1980s and it has underpinned much useful progress – investment in roads, development sites and business premises for example. These days most of the money goes on business support, especially for smaller firms. Recent examples include:

- **East Midlands:** £1.1 million to provide offices and studio space for new enterprises in Corby
- **North East:** £1.2 million to help the North East Industrial Symbiosis Network to deliver eco-innovation solutions
- **North West:** £4.9 million to build the Waterfront Business Park Access Road in Barrow
- **West Midlands:** £5.3 million to create the Centre for Advanced Materials
- **Yorkshire & Humber:** £4 million to provide enterprise coaching in deprived neighbourhoods in Doncaster

In total, just under £2.9bn is available to the English regions from the European Regional Development Fund (ERDF) over the 2007-13 spending round:

North West	£660m
Yorkshire & Humber	£510m
Cornwall	£400m
West Midlands	£350m
North East	£330m
East Midlands	£230m
London	£160m
South West (ex Cornwall)	£110m
East of England	£100m
South East	£ 21m

On a *per capita* basis, the English regions that should currently be benefiting most are the North East, North West, Yorkshire and West Midlands, plus Cornwall, which has a special status in EU programmes because of its low GDP figures. The per capita allocations reflect the concentration of economic problems in these parts of the country.

## The delivery crisis

Funds from Europe can only be drawn down if they are matched by UK funding (local, regional or central). A co-financing rate of 50 per cent is fairly normal, though for some projects the UK contribution is higher.

The problem is that the sources of matching finance have all but dried up.

- The English RDAs, which used to provide most of the matching finance are rapidly being wound up
- RDAs' replacement, the thirty-odd Local Enterprise Partnerships (LEPs), don't have funding streams of their own
- Local authorities simply don't have the cash to step into the breach – their own funding is being cut
- Most other public sector bodies – the university sector for example – are also facing reduced budgets

EU rules don't allow ERDF monies to be handed over directly to profit-making companies, so the private sector is largely ruled out as a source of matching finance.

The table below shows the amount of ERDF funding still contractually uncommitted in September 2011:

	<i>Uncommitted</i>	<i>as % total programme</i>
Yorkshire & Humber	£245m	48
North West	£215m	33
West Midlands	£185m	53
North East	£125m	38
East Midlands	£120m	50
Cornwall	£110m	28
East of England	£ 50m	53
South West (ex Cornwall)	£ 50m	47
London	£ 50m	31
South East	£ 10m	48
<b>ENGLAND</b>	<b>£1160m</b>	<b>41</b>

Source: Department for Communities and Local Government  
Uncommitted sums in euros converted to sterling at 1.15 euros to £1

## The problem is getting worse.....

Figures from the Department for Communities and Local Government show that between April and September 2011:

- Just £87m of EU funding was allocated to projects
- In six of the ten regional programmes, less than £10m was successfully allocated in this six-month period
- In a number of regions, including the North West and East Midlands, there was effectively *no forward progress at all*

In all, this is a spending programme that has **effectively stalled**.

At this rate of progress it would take six-and-a-half years – until 2020 – to allocate all the remaining EU funding.

There isn't this much time. All the EU funds have to be committed to projects by the end of 2013, and the money all has to be spent by the end of 2015.

A survey by the Local Government Association found that 68 per cent of respondents were not confident they could find matching finance. Only 1 per cent were very confident there was enough finance available. In the same survey some 46 per cent of local authority respondents said projects had fallen through or were at risk.

The problem is distinctively *English*, caused above all by the abolition of the RDAs. The consequences of RDA abolition were simply not thought through:

- In **England**, more than 40 per cent of the available EU funding is still unallocated, just two years from the end of the programme
- But in **Scotland** less than 20 per cent of the available EU funding is unallocated
- And in **Wales**, where the EU funding available to West Wales and the Valleys is on a larger scale than anywhere in England except Cornwall, only 25 per cent of the monies were uncommitted in October 2011

The effect of the shortfall in matching finance is to derail some projects that would otherwise have gone ahead and, in other cases, to deter public bodies such as local authorities from submitting bids in the first place.

## The Treasury's rake-off

Under the UK rebate agreement negotiated by Margaret Thatcher, two-thirds of the difference between what the UK pays into the EU and what it receives back automatically reverts to the Treasury.

***If the EU funds available to the regions are not drawn down, two-thirds of the money will therefore revert back to the Treasury.***

Good news for the budget deficit perhaps, but not for investment in business growth or for jobs in England's most disadvantaged communities.

## So what's the Government doing?

The officials who deal with European funding on a day to day basis seem sincere in their efforts to spend the money that is available. If the Treasury is intent on clawing back the money for itself it certainly hasn't said so – even if a refund for the Treasury would be the outcome if a solution cannot be found.

Officials have been looking for alternative sources of matching finance. They have focussed on central government's own spending programmes.

Initial attention was focussed on the **Regional Growth Fund**. This neatly matched the outstanding sums of European money and is targeted at much the same places. In practice, it has not proved possible to match the two funding streams to any great extent. The vast majority of the successful bids into the Regional Growth Fund have come directly from private sector companies for projects that are ineligible for ERDF monies from Europe.

A more recent internal review has sought to identify other possible sources of matching finance. These are understood to include the new Business Growth Fund, existing innovation funds, Broadband UK, the Homes and Communities Agency and the Growing Places Fund.

The problem is that, at the present stage, the involvement of these spending programmes in delivering EU funds to the regions remains speculative or, in some cases, only small-scale.

***The Government does not yet have a convincing solution to the matching finance problem. And time is ticking by.***

## The administrative hurdle

Even if central government can find the matching finance that is needed – a big challenge – there is still a question-mark about the present **administrative capability** to deliver the EU funds.

Apart from providing the main source of matching finance, the English RDAs were also responsible for administering EU funding. Whitehall exercised only ‘light touch’ supervision.

The way government has opted to cope with the abolition of the RDAs is by salvaging their European funding teams and transferring them to newly-created regional offices under the supervision of the Department for Communities and Local Government (CLG). The new arrangement is pragmatic but not painless:

- There has been a significant loss of key staff who did not want to transfer across to the civil service
- The administrative changes caused a hiccup in delivery
- There is a new emphasis, imposed by CLG, on ‘project compliance’ – making sure that schemes fit detailed EU rules so there is no long-term exposure to financial claw-back. The old emphasis on pro-actively seeking out suitable projects and on ‘getting money out of the door’ has gone.

## The view from Brussels

The European Commission is well aware of the crisis in the delivery of EU funds to the English regions. Ever since the decision was taken to abolish the RDAs, the Commission has known there is an impending problem.

The Commission can’t bend the rules to get the UK government off the hook. It knows that any precedent set in Britain would have to apply to other member states as well. In effect, the UK will have to find the matching finance or the regions will lose the money.

The Commission also can’t intervene formally – say by suspending payments to the UK in order to apply pressure for a solution – unless there is clear evidence of fraud or financial wrong-doing.

But make no mistake – the Commission shares the worries of English local authorities.

## So what's the solution?

Without matching finance from central government, most of the remaining European funding available to the English regions will end up not being spent.

It's hard to put a precise figure on the underspend, but at the current rate of progress and even allowing for a last-minute scramble to find matching money, ***it would be surprising if less than £700m remained unallocated by the time the programmes come to an end.***

The impending underspend would be *European* money lost to the *English* regions.

Two years out from the end of the current EU spending round there is still nothing inevitable about this loss of funding but a solution will require a new emphasis on delivery.

The Government needs to:

- **Step up its existing efforts to skew its own spending programmes so that they provide matching finance in the regions**
- **Publish its plans for delivering the remaining EU funding, so that they can be subject to proper scrutiny and so that potential partners in the regions can see how they might fit in**
- **Place new requirements on the CLG teams administering the EU funds in the regions to pro-actively seek out and deliver suitable investment projects**
- **Come up with bold spending projects in the regions that will allow the EU funds to be drawn down**
- **And, since there is ultimately likely to be little other option to ensure the EU funds are used, make capital allocations to the appropriate LEPs so that they can match the European funds on offer.**



## **Industrial Communities Alliance**

The **Industrial Communities Alliance** was formed in 2007 to represent local authorities in the industrial areas of England, Scotland and Wales.

The Alliance brings together two longer-established local authority associations - Coalfield Communities Campaign and SteelAction - together with local authorities from other industrial areas. It builds on ten years' successful collaboration under the banner of the Alliance for Regional Aid and a track record of successful lobbying by its predecessors extending back to the 1980s.

The Alliance is an all-party association.

The aims of the Alliance are

- to articulate the needs of Britain's traditional industrial areas
- to attract resources for regeneration
- to press for balanced growth within and between regions
- and to provide a framework for information sharing between member authorities.

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