Technical Assistance Note

European Funding (ESIF Programme 2013-2020)

Introduction

The Institute of Economic Development (IED) is becoming increasingly concerned about the distribution of the final rounds of European Funding under the 2013-2020 ESIF programmes amidst a growing view from our members that the European Programme Managing Authorities are increasingly taking a more risk averse view of applications to try to ensure that no funds will need to be repaid to the EC as a result of subsequent compliance disputes. Whilst the programme is working well in some areas and in others, there are elements of the programme which are progressing without difficulties, this briefing note focuses on those areas of difficulty.

The UK was allocated approximately £5.3bn in European structural funds for the 2013-2020 programme (although the weakness in Sterling has inflated this figure since it was agreed as a Euro budget at the start of the programme) and the agreement of the programme document was late, which immediately placed time pressure on the UK.

In all matters concerning European Structural Funds and in European State Aid there is a view common across economic development practitioners that the UK somewhat gold plates the contracting process, evaluation, process and monitoring, and that timescales and administration burdens with RPA, DEFRA, DWP, MHCLG and Interreg are lengthening – the management of ERDF programmes effectively is cumbersome for all participants. This cumbersome nature and the protracted timescales involved is something that the proposed Shared Prosperity Fund will need to address if the UK is to build an effective funding mechanism to facilitate balanced growth.

Of course, it is only right and proper that the Managing Authority undertakes the appropriate levels of due diligence assessment, and aims to mitigate through this process risks that funds might need to be repaid by them and applicants post-Brexit, during, and at the end or the 2013-2020 programme. However, we are hearing from our members that the application evaluation and the contracting processes are now being handled on a more stringent basis, that the process for due diligence assessment is not as clear or transparent as it could be, and that timescales for contracting are lengthening.

Many of our members provide guidance to applicants looking to answer ERDF (and other) EU funded calls. From what we have learned from their experience, and from our conversations with Managing Authorities, the following may help members to be better informed.

Retail

There seems to be significant confusion around the question of support for retail companies, including how they are to be defined.

ERDF can be used to support the business growth and low carbon needs of retail businesses, provided that they are an SME, and that the project is not exclusively or predominantly targeted at retail businesses.

SME investments in their business growth/low carbon needs, (often with the aid of a small grant for example), provided this is an integral part of the project as a whole and compliantly procured, can be used as match.

However, there is nothing in the guidance excluding investment in expenditure on items other than building, land and infrastructure, (already excluded) for example on purchasing equipment, labour and low value assets.

Feedback from members has raised the particular issue that there is no definition of what actually constitutes a retail business, nor in the EU, although the whole question of retail is now being looked at within a new services directorate. It could be taken as the resale of goods without transformation direct to consumers; but even in such a case, a B2B business may have just one or two consumer clients. Professional services firms have both B2B and B2C clients, but would not be classified as retail.

We look forward to further published guidance on these issues.

Financial Resilience

It has always been the case that Managing Authorities quite rightly conduct some due diligence on ESIF applicants. As far as ERDF is concerned, there is the ‘normal’ requirement for applicants to be able to cashflow expenditure for up to six months, and for Interreg, up to a year.

In addition, MHCLG are now seeking reassurance from all applicants, other than universities and the public sector, that they have the ability to withstand a future non-compliance clawback of up to 30% on the total contract value. This could be demonstrated through reserves, parent company guarantees, shareholder funds and so on). The assessment may vary from case to case, and we understand that other factors (such as applicant risk mitigation measures, audit track record, etc) may also be taken into account in determining whether to allow an applicant to proceed. Updating guidance for private and third sector applicants on this aspect is therefore timely.

Pension contributions

There appears to be some uncertainty regarding the continuing inclusion of pension contributions costs, currently included in most projects.

Procurement

Whilst the funds stem from the same source, Interreg has different procurement requirements to ERDF that applicants need to be aware of.

The Public Contract Regulations surrounding procurement have changed, but MHCLG do not appear to have accepted this or reflected it in their guidance.

Contract variations

There appear to be conflicting views from MHCLG on whether, if a project is forecasting that it may be unable to defray the total project budget, this must result in a formal project variation and the money decommissioned, or whether project extensions can be granted.

Conclusions

The end result is increasing dissatisfaction with the process, the timescales concerned, differing and changing "guidance", and in some cases abortive costs borne by applicants.

There is concern within the IED that this is a harbinger of problems likely to arise with the Shared Prosperity Fund, and that devolution of spend to the local level will continue to be restricted by central government.

Most importantly of all, however, is that the existing £5.3bn structural fund programme – likely to be the last European programme in the UK – will be underspent and will fail to achieve the important economic outcomes that it is supposed to support.

There is a need for an urgent review of the programme, its timescales, and its administration. The Shared Prosperity Fund must be radically different from ESIF.

The IED has met with Government Officials to discuss this further and will continue to engage in constructive dialogue. We will continue to press for clarity, transparency and timely communication, in order for the ESIF programme to be fully allocated, and will update members as any further clarity or guidance can be given.

We are grateful to Members for all their feedback, and please continue to get in touch with us at admin@ied.co.uk if you have anything further you'd like to share on this topic."