The Communities and Local Government Committee

The Communities and Local Government Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Communities and Local Government.

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Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/parliament.uk/clg. A list of Reports of the Committee in the present Parliament is at the back of this volume.

The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume.

Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee are Glenn McKee (Clerk), Edward White (Second Clerk), Steve Wright (Scrutiny Unit) Kevin Maddison (Committee Specialist), Emily Gregory (Senior Committee Assistant), Mandy Sullivan (Committee Assistant), Stewart McIlvenna, (Committee Support Assistant) and Hannah Pearce (Media Officer).

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# Contents

## Report

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary</td>
<td>3</td>
</tr>
<tr>
<td>1 Introduction</td>
<td>5</td>
</tr>
<tr>
<td>2 The purpose and impact of ERDF</td>
<td>7</td>
</tr>
<tr>
<td>Regional policy context</td>
<td>7</td>
</tr>
<tr>
<td>ERDF 2007–13 in England</td>
<td>10</td>
</tr>
<tr>
<td>Impact and value for money</td>
<td>12</td>
</tr>
<tr>
<td>3 The role of the Department</td>
<td>16</td>
</tr>
<tr>
<td>Governance arrangements</td>
<td>16</td>
</tr>
<tr>
<td>The transfer from Regional Development Agencies to DCLG</td>
<td>17</td>
</tr>
<tr>
<td>Making best use of England’s ERDF allocation</td>
<td>19</td>
</tr>
<tr>
<td>Regional Growth Fund</td>
<td>23</td>
</tr>
<tr>
<td>4 Improvements for the 2014–20 round</td>
<td>25</td>
</tr>
<tr>
<td>Proposals for ERDF 2014–20</td>
<td>26</td>
</tr>
<tr>
<td>Simplification of applications</td>
<td>26</td>
</tr>
<tr>
<td>Local needs</td>
<td>27</td>
</tr>
<tr>
<td>Conclusions</td>
<td>28</td>
</tr>
<tr>
<td>Funding conditionality</td>
<td>28</td>
</tr>
<tr>
<td>Allocating the ERDF budget across the EU</td>
<td>29</td>
</tr>
<tr>
<td>5 Repatriating regional policy</td>
<td>33</td>
</tr>
<tr>
<td>Conclusions and recommendations</td>
<td>35</td>
</tr>
<tr>
<td>Formal Minutes</td>
<td>37</td>
</tr>
<tr>
<td>Witnesses</td>
<td>38</td>
</tr>
<tr>
<td>List of printed written evidence</td>
<td>38</td>
</tr>
<tr>
<td>List of additional written evidence</td>
<td>38</td>
</tr>
<tr>
<td>List of Reports from the Committee during the current Parliament</td>
<td>40</td>
</tr>
</tbody>
</table>
Summary

The European Regional Development Fund (ERDF) is the EU’s main tool to reduce economic disparities between the regions. Worth €201 billion between 2007–13, most of the funding goes to the poorer regions in eastern and southern Europe. England’s allocation during this period was €3.3 billion (approximately £2.8 billion), with the largest share of the funds going to Cornwall and the Isles of Scilly, Merseyside and South Yorkshire, all of which face significant and long-standing challenges to economic growth.

To many of those who gave us evidence ERDF is a highly valued source of funding which has supported projects across England that would otherwise not have been able to proceed. It has contributed to major schemes such as the Eden Project in Cornwall, the Sage concert hall and the Baltic art gallery in Gateshead and the Kings Dock redevelopment in Liverpool. It has also supported many smaller projects across the country to boost enterprise and support small businesses.

Responsibility for managing ERDF in England passed from Regional Development Agencies (RDAs) to the Department for Communities and Local Government (DCLG) in July 2011. The transfer has generally been managed well, but the new arrangements have meant that some new projects have taken longer to be approved, and bids for innovative projects are being rejected because of a more risk-averse approach at DCLG. ERDF can only be used to part-fund projects, and bidders therefore also need to attract funding from other sources. The abolition of the RDAs removed the main source of match funding for ERDF projects, and the economic downturn has reduced the options for match funding even further. The Government does not seem to appreciate the problems that projects are facing in securing the match funding needed for them to go ahead. It has not delivered on its promise to make it easier for projects to use its Regional Growth Fund (RGF) as match funding; we urge the Government to set aside RGF money specifically for this purpose. All these factors, together with the pressing need to spend each region’s ERDF allocation before 2015, increases the risk that value for money will suffer and ERDF will not make the impact it might have done.

Discussions are underway to agree the size and shape of the next ERDF round (2014–20). The European Commission has proposed a number of sensible changes which we support, including aligning the regulations for a number of EU funds and simplifying the application and compliance systems. We welcome the Commission’s proposal to give Member States the power to tailor the size of their Operational Programme areas, which could allow Local Economic Partnerships in England to take responsibility for managing EU funds. We agree with the Commission’s intention to ensure that funds are allocated to Member States that can use them properly, but we share the Government’s concerns over how this is implemented. The Commission’s desire to make the UK’s funding conditional on meeting certain macroeconomic conditions, despite previous commitments to the contrary, is not acceptable, and we support the Government’s intention to resist this.

ERDF, together with the European Social Fund and the Cohesion Fund, targets money towards the poorest European regions. We agree that encouraging economic growth in these regions benefits England and the rest of the EU, and that these funds can make a
valuable contribution. The current system, however, in which even the wealthiest Member States receive ERDF funding, should be replaced by one that provides additional funds for the poorest Member States and allows the wealthiest to retain the part of the funds they currently send to the EU and which is recycled back to them. This would allow the EU to focus on the needs of the poorest Member States, and allow England to regain control over the precise application of regional policy. We recognise that this repatriation of regional policy will not happen for the 2014–20 round but we encourage the Government to continue to press this argument for subsequent rounds. It also has to be underpinned with a guarantee from the Treasury that the same level of funds would be committed to be spent on English regional policy, would be concentrated on the poorest regions and would be fixed for the full seven year term of the EU spending round.

We welcome the Commission’s proposal to introduce an intermediate level of funding for middle-ranking regions from 2014. We recognise that this change could benefit up to nine English regions. We urge the Government to support this measure, which will reduce the cliff-edge effect on funding levels that currently exists as a result of a single threshold that separates Member States into just two categories.
1 Introduction

1. Reducing regional economic disparities within Europe has become an increasingly important policy objective for the European Union (EU), particularly since the accession of ten new Member States in 2004. Article 174 of the Treaty on the Functioning of the European Union states:

   In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion.

   In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions.¹

2. The European Regional Development Fund (ERDF) is the largest of the three main funds used by the EU to achieve greater economic cohesion, reduce regional disparities and promote economic growth across the EU. The fund was set up in 1975, and now operates on a seven year cycle. The total budget for the current ERDF round of 2007–13 was set at €201 billion and negotiations are underway to set the objectives, regulations and size of the ERDF for the next programming period covering 2014–20. This process forms an integral part of negotiations over the EU’s whole budget for that period, of which regional funding forms an increasingly large proportion.² It is in this context that we decided to hold an inquiry into ERDF, with the intention of informing the UK’s negotiating position over the coming months, and examining whether England’s regional policy and funding should be a matter exclusively for Ministers in London.

3. We issued the following call for evidence on 28 February 2012 asking for submissions that addressed the following questions:

   • how, and on what, is ERDF spent?
   • is the taxpayer in England obtaining value for money from the ERDF?
   • could the funds contributed to, and paid out on, regeneration through ERDF be spent more effectively by repatriating ERDF to the Government in London?
   • with the abolition of the Regional Development Agencies responsibility for ERDF in England passes to DCLG. What effects are these changes having on the administration, assessment and payment of ERDF?

4. We received over 40 written submissions from local authorities, think tanks, academics, the European Commission, the Government and other interested parties. We held two oral evidence sessions in April and May 2012 at which we examined the themes and issues that

¹ Treaty on the Functioning of the European Union, Article 174
² The terms regional policy and cohesion policy are often used interchangeably; for consistency we refer to regional policy in this report.
emerged from the written evidence. We are grateful to all those who gave evidence and contributed to the inquiry.

5. In this Report we consider in chapter 2 what the ERDF has delivered in England, and whether it is possible to assess its value for money. In chapter 3 we look at the role of the Department for Communities and Local Government (DCLG) and, specifically, at the impact of the transfer from Regional Development Agencies (RDAs) to DCLG, and how the abolition of the RDAs has affected the operation of the fund on the ground. We consider, in particular, the problem of match funding, and whether this has stopped some worthwhile projects going ahead. We then look forward in chapter 4 to the next ERDF round, covering 2014–20, and what improvements could be made to make the fund more effective. We conclude in chapter 5 by considering the issue of repatriation, and whether, in the longer term, the direction, management and funding of English regional policy should be a matter exclusively for England, without the involvement of the EU.
2 The purpose and impact of ERDF

Regional policy context

6. Article 3 of the Treaty on European Union states that the EU should “work for the sustainable development of Europe based on balanced economic growth and [...] promote economic, social and territorial cohesion, and solidarity among Member States”.

This is the essence of the EU’s regional policy. It seeks to generate growth and employment in all the regions of the EU, but particularly aims to achieve a more balanced distribution of prosperity between the regions. Table 1, below, sets out the EU’s three objectives for regional policy, as agreed by the EU Council and European Parliament in 2006, with expected expenditure against each:

Table 1: EU regional policy objectives, 2007–13

<table>
<thead>
<tr>
<th>Objective</th>
<th>Value</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convergence</td>
<td>€283 billion</td>
<td>Improving the conditions for growth in the least-developed regions, where GDP per capita is less than 75% of the EU average. It applies to 100 regions representing approximately 35% of the EU population, primarily in Eastern and Southern Europe.</td>
</tr>
<tr>
<td>Regional Competitiveness and Employment</td>
<td>€55 billion</td>
<td>Increasing competitiveness and employment in the 168 regions not covered by the Convergence objective.</td>
</tr>
<tr>
<td>European Territorial Cooperation</td>
<td>€9 billion</td>
<td>Strengthening cross-border co-operation by supporting joint programmes, projects and networks involving different Member States.</td>
</tr>
<tr>
<td>Total</td>
<td>€347 billion</td>
<td></td>
</tr>
</tbody>
</table>

7. As the table shows, over 80% of the EU’s regional policy budget is focused on the Convergence objective, and is therefore allocated to the EU’s least developed regions. Map 1 shows how the EU’s regions are classified as either falling under the Convergence objective or the Regional Competitiveness and Employment objective. The relatively small amount of funding available for the European Territorial Cooperation objective is shared between regions, and is not shown on this map.

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3 Treaty on European Union, Article 3
Map 1: Structural Funds 2007–13 Convergence and Regional Competitiveness Objectives

Structural Funds 2007-2013: Convergence and Regional Competitiveness Objectives

- Convergence Regions
- Phasing-out Regions
- Phasing-in Regions
- Competitiveness and Employment Regions

8. As table 2 shows, ERDF is the largest of the three Structural and Cohesion funds used to achieve these objectives:

**Table 2: EU Structural and Cohesion Funds, 2007–13**

<table>
<thead>
<tr>
<th>Fund</th>
<th>Value</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>ERDF</td>
<td>€201 billion</td>
<td>Investment in companies (particularly small and medium-sized enterprises), infrastructure, financial instruments and technical assistance measures. Allocated on a regional basis.</td>
</tr>
<tr>
<td>European Social Fund (ESF)</td>
<td>€76 billion</td>
<td>Supports projects to provide training, improve skills, and open up access to employment opportunities. Allocated on a regional basis.</td>
</tr>
<tr>
<td>Cohesion Fund</td>
<td>€70 billion</td>
<td>Finances trans-European transport networks and environmental projects. Allocated to Member States whose Gross National Income per inhabitant is less than 90% of the EU average.</td>
</tr>
<tr>
<td>Total</td>
<td>€347 billion</td>
<td></td>
</tr>
</tbody>
</table>

9. The purpose of ERDF is set out in the Treaty on the Functioning of the European Union (TFEU):

   The European Regional Development Fund is intended to help to redress the main regional imbalances in the Union through participation in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions.6

10. ERDF is mainly used to provide a financial contribution to projects that are promoted by the public sector, such as government departments, local authorities, and further and higher education establishments, when other sources of funding are not available.7 It can also be accessed by voluntary sector organisations, and, to a lesser extent, used to help develop small and medium-sized enterprises. The proportion of project costs that ERDF money can make up varies according to the circumstances of the region in question. In the least developed regions this can be up to 85% of the project value. In England ERDF can generally make up 50% of a project costs, rising to 75% in the Convergence objective area of Cornwall and the Isles of Scilly.8

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6 Treaty on the Functioning of the European Union, Article 176
11. Financing from ERDF may not be used to replace public spending by a member country under a principle known as “additionality”. The European Commission agrees in advance the level of eligible public spending to be maintained throughout the programming period for each country. In general this amount should be at least the same in real terms as was spent in the previous period. The Commission then checks for compliance with the additionality rule with each country during and after the programming period.9

**ERDF 2007–13 in England**

12. Following the accession of ten new Member States in 2004, and to reflect the new priorities for the EU’s regional policy, the UK and other wealthier states received far smaller settlements in 2007–13 than they had done in 2000–2006. England’s ERDF funding was set at €3.3 billion (approximately £2.8 billion) for the 2007–13 period.10

13. Only one part of England—Cornwall and the Isles of Scilly—has Convergence objective status for 2007–13, with the highest level of funding ring-fenced at EU level and set at £395 million. Merseyside and South Yorkshire receive transitional “phasing-in” funding worth £268 million and £234 million respectively; these settlements are also ring-fenced at EU level.11 These areas are treated in this way because they had previously qualified for the highest level of funding in the 2000–06 ERDF round (then called “Objective 1” funding), but did not qualify for Convergence funding in the 2007–13 round because their economies had improved relative to the EU average. However, this improvement was largely caused by the accession of the ten new Member States in 2004 which lowered the EU average by 12.5%. Transition funding was granted to give those areas a more gradual adjustment to the less generous funding level under the Competitiveness objective.

14. Member States were free to choose how to allocate their Regional Competitiveness and Employment objective funding between their other regions. In England the Government took into account the regional population sizes, GDP and levels of innovation, enterprise and skills when allocating this funding. The Government also applied a safety-net mechanism to protect individual regions from disproportionately large funding cuts.12 Professor Steve Fothergill, from the Centre for Regional Economic and Social Research at Sheffield Hallam University, told us that the UK’s ERDF funding in 2007–13 has been targeted towards its poorest regions:

> Across the EU as a whole, the vast majority of funding does go to the poorest regions, and even within the UK the funding is heavily skewed to the poorest regions. That is surely absolutely correct, because it is those regions that you are trying to bring on.13

Table 3 shows the 2007–13 ERDF funding allocations for the English regions:

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9 Council Regulation (EC) No 1083/2006, Article 15  
10 Ev 42, para 2; all Sterling figures are approximate because of fluctuations in the exchange rate.  
11 These areas fall within the Yorkshire & Humber and North West regions; figures provided by DCLG.  
12 HC Deb, 23 October 2006, cols 72WS–74WS  
13 Q 43
Table 3: ERDF 2007–13 funding allocations in England (£ millions)\textsuperscript{14}

<table>
<thead>
<tr>
<th>Regional Competitiveness and Employment</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>North West [1]</td>
<td>659</td>
</tr>
<tr>
<td>Yorkshire and Humber [2]</td>
<td>505</td>
</tr>
<tr>
<td>West Midlands</td>
<td>345</td>
</tr>
<tr>
<td>North East</td>
<td>326</td>
</tr>
<tr>
<td>East Midlands</td>
<td>232</td>
</tr>
<tr>
<td>London</td>
<td>158</td>
</tr>
<tr>
<td>South West</td>
<td>107</td>
</tr>
<tr>
<td>East of England</td>
<td>96</td>
</tr>
<tr>
<td>South East</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,448</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Convergence</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>South West (Cornwall and Isles of Scilly)</td>
<td>395</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,843</strong></td>
</tr>
</tbody>
</table>

**Notes:**

[1] includes £268 million of phasing-in funding for Merseyside
[2] includes £234 million of phasing-in funding for South Yorkshire

15. The Commission, in consultation with the Member States, published the *Community Strategic Guidelines on Cohesion* in October 2006 which set out the principles and priorities of EU regional policy. This was the basis for each Member State to draft its own National Strategic Reference Framework (NSRF) in which it set out its high level priorities for Structural and Cohesion funds spending. The UK Government set the strategy for the English regions, and the Scottish Executive, the Welsh Assembly Government and the Northern Ireland Administration developed their own strategies, which were all contained within the NSRF for the UK.\textsuperscript{15} According to the UK’s NSRF, England has four priorities for its ERDF programmes:

- to promote innovation and knowledge transfer;
- to stimulate enterprise;
- to ensure sustainable development, production and consumption; and

\textsuperscript{14} Adapted from Ev 46
to build sustainable communities.\textsuperscript{16}

16. ERDF in Cornwall and the Isles of Scilly has slightly different priorities, reflecting the challenges and problems specific to that region as the sole recipient of Convergence objective funding in England:

- to promote innovation and knowledge transfer;
- to stimulate enterprise and business development; and
- to improve accessibility and connectivity.\textsuperscript{17}

**Impact and value for money**

17. The current ERDF round, which started in 2007, has contributed to hundreds of projects across England, from the WorkSpace business incubation centre in Berwick-upon-Tweed to the Porthcressa regeneration project on the Isles of Scilly. We received a great deal of evidence in support of ERDF, particularly from funding recipients.\textsuperscript{18} Projects supported during the 2007–13 period include:

<table>
<thead>
<tr>
<th>An environmental programme for small businesses in the North West</th>
</tr>
</thead>
<tbody>
<tr>
<td>The ecoSMARTER scheme provides small businesses with a free green makeover worth more than £1,000, helping to cut bills and carbon emissions. Businesses that sign up to the scheme have a free electricity monitor installed as well as receiving environmental support from a sustainability expert. ERDF is contributing half of the project's £1 million cost.\textsuperscript{19}</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>A programme to promote enterprise in West Yorkshire</th>
</tr>
</thead>
<tbody>
<tr>
<td>£5 million of ERDF funding is being used in Bradford to support the growth of new enterprise in deprived communities and helping third sector organisations to identify opportunities for growth. In Halifax the project links established companies to emerging community businesses and social enterprises in a mentoring programme.\textsuperscript{20}</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>A fund to support small businesses in Shropshire and Herefordshire</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Shropshire and Herefordshire Business Fund provides capital grants to start-up and existing small and medium sized businesses. So far 176 businesses have been supported, assisting the creation of 105 full-time jobs and 60 new businesses. This scheme has secured £1 million of ERDF funding.\textsuperscript{21}</td>
</tr>
</tbody>
</table>


\textsuperscript{17} Department for Trade and Industry, *United Kingdom National Strategic Reference Framework: EU Structural Funds Programmes 2007–13*, October 2006, pp 41–42

\textsuperscript{18} For example, Ev w6 [Leicester City Council], Ev w40 [Cornwall Council], Ev w55 [Greater Manchester Combined Authority]

\textsuperscript{19} Ev w56 [Greater Manchester Combined Authority]

\textsuperscript{20} Ev 43

\textsuperscript{21} Ev 32, para 6
18. We asked ourselves whether these projects would have gone ahead in the absence of financial support from ERDF. It is, of course, difficult to know what would have happened, but in view of the value of the funding available (up to 50% or 75% of the project value) it is likely that such projects would have struggled to obtain funding. According to Professor Fothergill, the ERDF programme for 2000–06 made a vital contribution to at least two projects of national importance:

If you are looking for truly transformational examples around the country, go to, for example, the Newcastle Gateshead quayside area, which has been absolutely transformed over the last 10 or 15 years. The two big iconic developments there—the Sage concert hall and the Baltic art gallery—are both substantially ERDF funded. I doubt whether you would have got that development without the contribution of Europe. Again, there is the question whether can we always establish a reliable counterfactual, but intuitively I do not think it would have got it. Go down to Cornwall and look at the Eden centre—a major asset now for the development of the Cornish tourism industry. It was substantially funded in part by the ERDF, and it probably would not have happened in that form and on that scale without the ERDF money.22

19. The European Regional Development Fund (ERDF) is highly valued by local authorities and other recipients. It has made vital contributions to a variety of projects across the country, many of which would not have gone ahead without ERDF money.

20. The next question we asked was whether the projects that have been funded by ERDF in England provide good value for money. According to figures provided by DCLG, by October 2011 the 2007–13 ERDF programmes in England had delivered:

- 8,700 gross jobs created and an additional 16,462 gross jobs safeguarded;
- support to enable 2,813 businesses, 4,945 Small and Medium Enterprises and 374 Social enterprises to start up or expand;
- gross increase in the value of goods or services provided by each area, or Gross Value Added [of] £124.2 million; and
- net increase in Gross Value Added [of] £0.9 million.23

21. In a statement to the House on 23 January 2012 Rt Hon Grant Shapps MP, Minister for Housing and Local Government, noted that £984 million had been paid out to projects through ERDF by the end of November 2011,24 meaning that each job created had required more than £113,000 of ERDF funding. It may be too soon, however, to assess the value for money of the current ERDF round. The funding allocations do not have to be spent until the end of 2015, meaning that new benefits will continue to be generated for many years to come. Furthermore, the nature of the programme means that ERDF projects will deliver

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22  Q 40
23  Ev 43, para 8; Gross Value Added plus taxes on products less subsidies on products equals Gross Domestic Product.
24  HC Deb, 23 January 2012, col 50W
most of their benefits over the longer term, particularly in light of the focus on larger strategic projects in this funding period. Professor Fothergill explained that:

If you are putting in infrastructure, it may not feed through for five, 10, 15 years, to much higher economic activity in that location, because you are creating the basic conditions under which economic growth can happen.25

22. Assessing the value for money of ERDF is inherently problematic, partly because it is so difficult to separate out the impact of ERDF funding from all the other factors affecting regional economies. Professor Fothergill said that:

It is certainly true that the academic evidence on the effectiveness of the EU Structural Funds is patchy and at times even contradictory. But this does not mean that the funding is ineffective. A very great complication is disentangling exactly what would have happened in the absence of EU spending: it is the difference between what would have happened and what actually happened that is the proper measure of the policy effect. In the EU context the problem is that a great many other things are happening simultaneously – national economic policy, members states’ own regional policies, and underlying regional and locational trends for example. This renders the accurate identification of a policy effect nigh on impossible.26

23. Not only is it difficult to isolate the impact of ERDF from other factors, it is also not possible to say what could have been achieved if the same money had been spent in a different way. Mats Persson, from the think-tank Open Europe, said that:

For every pound invested in a certain area of the economy, we have to take into account that the same pound could have been invested somewhere else and perhaps generated greater benefit. That is the opportunity cost and it is extremely difficult to quantify.27

24. A number of organisations commented that ERDF offers good value for money because it is used to provide projects with just part of their funding, bringing in additional funding sources and allowing the ERDF budget to support more projects than might otherwise be the case.28 The Greater Manchester Combined Authority said that value for money on individual projects was taken into consideration at the application stage, and projects were checked during their lifetimes to ensure that milestones and outcomes were being met, and costs per outputs were benchmarked against similar projects.29 These measures give some assurance that the funding is being used to good effect. One common complaint, however, is that the administration for project approval and monitoring is too costly and burdensome, and has an adverse effect on value for money.30

25  Q 63
26  Ev 34
27  Q 38
28  For example, Ev w11–12 [Nottingham City Council], paras 2.1–2.2
29  Ev w56
30  Ev w7–8 [Leicester City Council], paras 2.9–2.10 and Ev w94 [Centre for Process Innovation], para 3.2.2.1
25. We recognise that it is difficult to isolate the impact of ERDF from other factors, but in these economic times the taxpayer must be reassured that public money is being spent efficiently and effectively. We are concerned that it has been so difficult to assess the value for money of ERDF; we recommend that the Government should evaluate this and report to us by the summer of 2013 on what has been achieved in each region. It should also ensure that monitoring and evaluation is improved and streamlined for the 2014–20 ERDF round.

26. The EU’s Structural and Cohesion Funds were set up to try and address some of the fundamental economic and social weaknesses of the least-developed regions of the EU. Although there have been some individual local successes it is difficult to prove that the funds have had a significant impact at a regional level. We looked at Cornwall and the Isles of Scilly, which is England’s only region eligible for Convergence objective funding, and has obtained the highest level of ERDF funding since 1994. This region faces particular problems which partly stem from its geographic position; EU funding will not resolve these issues. It can, however, still play a part in mitigating their effects – for instance through a Superfast Broadband project aimed at boosting productivity by connecting 10,000 businesses by 2014. However, as Professor Fothergill told us, “many of the problems we are dealing with in some of the less prosperous regions are deep-seated, and will take decades to turn round”.

27. Although the majority of benefits are realised in later years, the evidence available to us suggests that ERDF 2007–13 has not yet made a significant impact. It is not even possible to conclude that the 2000–06 ERDF round has done so, because of the lack of robust evidence. The challenges facing regions such as Cornwall and the Isles of Scilly are profound, and ERDF can only provide part of any solution.
3 The role of the Department

Governance arrangements

28. The Department for Communities and Local Government (DCLG) is the designated Managing Authority for all ERDF programmes in England. Its main role is to ensure that the programmes are delivered and conform to the European Commission’s regulations, and it is also responsible for reporting to the Commission. The devolved administrations take responsibility for their own ERDF programmes.

29. England is divided into ten Operational Programme areas; there are nine Regional Competitiveness and Employment programmes plus the one Convergence programme in Cornwall and the Isles of Scilly.


Source: DCLG
30. Each Operational Programme has its own priorities and funding allocation, and is led by a Local Management Committee. These committees consider applications, award grants, oversee investment, guide the programme, and assess progress. They draw their membership from government departments, local authorities, educational institutions, environmental organisations, the voluntary and private sectors and members of the business community. Day-to-day management is carried out by DCLG staff in local Programme Delivery Teams, except in London where this is performed by the Greater London Authority’s European Programmes Management Unit. Until July 2011 Regional Development Agencies were responsible for this management role.33

The transfer from Regional Development Agencies to DCLG

31. The Coalition Government stated its intention to abolish Regional Development Agencies (RDAs) in June 2010, and in February 2011 Baroness Hanham, Parliamentary Under Secretary of State at DCLG, announced the new governance arrangements for ERDF:

The ERDF is currently delivered by teams in the regional development agencies. Following our decision to abolish these agencies and encourage local communities to come together to form economic partnerships that make sense for them I have concluded that, in order to maintain compliance with the regulations and spending momentum, we should transfer the existing ERDF staff and functions into my department by the beginning of July.

We want to encourage local communities to make use of the ERDF. This is more likely to happen if ERDF teams continue to be located close to the places they serve so they are on hand to offer support and advice to projects. So I have decided that we must aim to locate the ERDF teams as far as possible in their existing towns or cities.34

32. We wanted to establish if the transfer of responsibilities from the RDAs to DCLG had been managed well. The picture was mixed, but on the whole the transition appears to have gone relatively smoothly. Dr José Palma Andrés, Director in Regional Policy at the European Commission, said that the transition had been “well managed” by DCLG, and the Local Government Association noted that “generally speaking, the administrative transition has gone well”.35 DCLG’s decision to retain staff from the RDAs’ local ERDF management teams was widely praised as an important way to preserve local knowledge, and to prevent the programme becoming too London-centric. Birmingham City Council noted that:

The retention of the teams administering ERDF from the RDA and transferring to DCLG has overall worked well and is welcomed. This allowed continuity at a critical time in delivery and any alternative would have lost momentum.36

34 HL Deb, 3 February 2011, col 86WS
35 Q 18 and Ev 29, para 5.2
36 Ev w83
33. The Greater Manchester Combined Authority commented that:

Having the DCLG team based in the region offers significant added value and understanding to the holistic economic development of the city region, as opposed to having a remote team based in London who does not understand the economic issues of the locality on the ground.\textsuperscript{37}

34. A number of organisations commented, however, that staff numbers had fallen following the transfer, and that this was having a negative impact on delivery. Birmingham City Council noted that, while the transition process itself was handled well:

The remaining DCLG-ERDF teams are quite small; they previously drew support from officers across the RDA which they now don’t have and response times to getting projects assessed can be slow which then has knock on impacts on achieving spend and results. We are concerned that there are not enough staff resources in place given their new role in monitoring regional RGF projects.\textsuperscript{38}

35. The impact of the staff reductions appears to vary across England. Linda Edworthy, representing the Chief Economic Development Officers’ Society (CEDOS), said that:

When talking to our colleagues in some areas, such as Norfolk, East Riding and Derby, there has been a significant reduction in the level of staffing from the transfer from the RDAs across to CLG [...] Some areas feel that it has had a negative impact, whereas in other areas—for example, in the north-east of England—there has been no real change. Thirty-one staff transferred from the RDA to CLG, and in terms of the processes there has been no real change.\textsuperscript{39}

36. Leicester City Council was one of the organisations that told us they had experienced delays as a result of the transfer from RDAs to DCLG:

The initial disruption of the changes caused significant delays and confusion in the administration of the programme. It particularly caused delays in the appraisal of new project applications and of those already in the pipeline.

Since January 2011, the Local Management Committee (LMC) did not meet until December 2011 and has only met once since then. This has meant no projects have officially been approved for over a year.\textsuperscript{40}

37. The Centre for Process Innovation also noted that the time taken for payments to be processed had increased because of the additional checks required by DCLG over and above what had been needed previously:

While it is acknowledged that DCLG are responsible for ensuring ERDF is spent in accordance with the rules, and some level of checking of claims is prudent, the level of scrutiny each claim is subject to, and the length of time taken to process each

\textsuperscript{37} Ev w58
\textsuperscript{38} Ev w83
\textsuperscript{39} Q 15
\textsuperscript{40} Ev w8, paras 4.1–4.2
claim, is disproportionate to the value of the checks performed. While we did receive some queries from the RDA, the volume of questions and the length of time taken to process claims in order to release payment has increased significantly.\textsuperscript{41}

38. We found support for the manner in which DCLG has managed ERDF in England following the decision to abolish the Regional Development Agencies (RDAs). Significantly, the decision to transfer former RDA staff to DCLG and leave them located in the regions has smoothed the transition. Where there was criticism it was that the transition had, in some areas, caused delays, particularly in approving new projects. We recommend that DCLG review arrangements for approving projects in those areas where delays have been reported.

39. According to evidence from the West Midlands Councils the culture of the programme has also changed, with the result that more innovative projects might be less likely to be approved for funding:

The major change has been a loss of flexibility. When the programme was the responsibility of the RDA projects that were regarded as risky but had the potential to deliver major benefits were more likely to be funded. With responsibility passing to DCLG the programme has become more conservative.\textsuperscript{42}

40. It is not clear whether this change can be attributed to a more risk-averse culture at DCLG, or is a consequence of the need to spend ERDF budgets more quickly as deadlines approach. Linda Edworthy said that:

Coming towards the end of the programme, there will inevitably be a focus on the delivering of outputs, which again tends to lead to projects that can be delivered quickly, and, maybe, perhaps less innovative schemes. But we have had some comments from Lincolnshire and Torbay. They have experienced the change having an impact in terms of less consideration of innovative schemes.\textsuperscript{43}

41. ERDF is particularly useful for innovative projects which, because of the lack of alternative funding sources, might otherwise be unable to proceed. We urge DCLG to ensure that novel projects are supported, and not put at a disadvantage in a rush to get ERDF money spent on more straightforward, but potentially less beneficial, projects.

Making best use of England’s ERDF allocation

42. The funding allocated to each of the ten Operational Programme areas in England (see Map 2) for the 2007–13 ERDF round must be contracted by the end of 2013 and spent by the end of 2015, otherwise the money will not be available. Baroness Hanham confirmed that it was not possible for unspent ERDF allocations to be transferred from one region to another.\textsuperscript{44} Any unspent money will go back to the Commission, although under the terms

\textsuperscript{41} Ev w96, para 3.4.2.1
\textsuperscript{42} Ev w23
\textsuperscript{43} Q18
\textsuperscript{44} Q 99
of the UK’s rebate agreement, two-thirds of that money will in fact be returned to HM Treasury.\(^45\) According to figures provided by DCLG, contracts had been signed to spend some 63% of England’s total ERDF allocation by January 2012, over 70% of the way through the 2007–13 period. Table 4 shows the regional pattern, with only 54% of funding for Yorkshire and Humber contracted compared to 73% in Cornwall and Isles of Scilly (the only area receiving Convergence funding). If received applications for funding are also included the overall figure for England rises to 93%, but there is no guarantee that these projects will receive approval to proceed.

<table>
<thead>
<tr>
<th>Region</th>
<th>% contracted</th>
<th>% contracted or applied for</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yorkshire and Humber</td>
<td>54</td>
<td>106</td>
</tr>
<tr>
<td>South West</td>
<td>55</td>
<td>100</td>
</tr>
<tr>
<td>East Midlands</td>
<td>56</td>
<td>87</td>
</tr>
<tr>
<td>West Midlands</td>
<td>60</td>
<td>94</td>
</tr>
<tr>
<td>North East</td>
<td>62</td>
<td>88</td>
</tr>
<tr>
<td>South East</td>
<td>63</td>
<td>88</td>
</tr>
<tr>
<td>North West</td>
<td>67</td>
<td>85</td>
</tr>
<tr>
<td>London</td>
<td>70</td>
<td>97</td>
</tr>
<tr>
<td>East of England</td>
<td>71</td>
<td>88</td>
</tr>
<tr>
<td>Cornwall and Isles of Scilly</td>
<td>73</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>63</strong></td>
<td><strong>93</strong></td>
</tr>
</tbody>
</table>

43. DCLG is confident that all ERDF funding will be spent by the deadline of the end of December 2015. Baroness Hanham assured us that “we do not expect to hand back money to the EU; we expect it to be spent”.\(^47\) DCLG explained that it had taken steps to increase the rate of spend after taking over from the RDAs because of the risk that funds would go unspent:

At the time of transfer, the programme was at risk of missing some of its spending targets. However under DCLG’s direct management, all individual ERDF programmes achieved their annual 2011 spending targets, ensuring that the money has been spent for the benefit of local communities and not returned to the EC unspent. The Department has managed the programme closely to raise rates of spending where necessary (such as in the Yorkshire and Humber, where programme

\(^{45}\) Ev w4

\(^{46}\) Adapted from Ev 46

\(^{47}\) Q 96
spend accelerated from around £5 million per month in June to over £20m per month in November and December).48

44. Despite the recent increase in spending, and DCLG’s confidence in meeting the spending targets, many organisations who submitted evidence were concerned that funding would indeed go unused. Their main concern was the availability of match funding, without which ERDF projects cannot proceed. We have been concerned about this issue for some time. Last October, in our report on Regeneration, we expressed our concern that match funding was proving difficult to find and we urged the Government to help bidders locate it to allow projects to go ahead and ensure all of England’s ERDF allocation would be spent:

We are pleased that the Minister is committed to spending “every single penny” of England’s European Regional Development Fund allocation. However, a significant sum remains uncommitted and there are doubts about whether the necessary match funding, much of which has previously been supplied by the Regional Development Agencies, can be found. We recommend that the Government set out proposals for working with local partners to identify sources of match funding, with a view to ensuring that all remaining European Regional Development Fund money is spent.49

45. It would appear that securing match funding remains a key challenge for organisations wishing to make use of ERDF. According to a recent survey carried out by the Local Government Association:

over two-thirds of respondent councils were not confident about the availability of match-funding for the ERDF remaining in their regional programme [and] over half had projects or potential projects which had either fallen through or were at risk of doing so.50

46. In England, ERDF can only provide funding for up to 50% of a project’s value (75% in Convergence areas), leaving the remaining 50% to come from other sources. The ongoing economic downturn has meant that match funding (both public and private) has become harder to secure. The main source of match funding had, until July 2011, been the RDAs, who had used their own budgets to support ERDF projects.51 Once responsibility for ERDF was transferred from the RDAs to DCLG this source of match funding was lost. The Industrial Communities Alliance pointed out that:

The sources of matching finance have all but dried up: the RDAs have been wound up; Local Enterprise Partnerships (LEPs) don’t have significant funding streams of their own; local authorities have little cash because their own funding is being cut

48  Ev 43, para 12
49  Communities and Local Government Committee, Sixth Report of Session 2010–12, Regeneration, HC 1014, para 111
50  Ev 29, para 5.3
51  Ev w4
and other public sector bodies – the university sector for example – are also facing reduced budgets.\textsuperscript{52}

47. We received evidence of projects being delayed or cancelled because of match funding problems.\textsuperscript{53} One example came from Leicester City Council:

The loss of the Single Programme funds controlled by the RDAs led to a number of projects closing early or being withdrawn as they lost match funding such as Leicester’s Science Park project. This has now been re-submitted but a 12 month delay whilst it sought new match funding has meant that potential job opportunities have been lost.\textsuperscript{54}

48. Baroness Hanham assured us, however, that there was match funding available and that it was up to project backers to find it:

Our experience now is that there are really quite a lot of areas for match funding. There are a number of bodies and the Government have a number of pockets now for match funding. The difficulty with match funding is people going out and finding it [... ] Mark Prisk from BIS and I sent out a letter to local authorities a little while ago reminding them of where the various budgets or the various elements that can be used for match funding were.\textsuperscript{55}

There is a Growing Places Fund. We have Business Coaching for Growth, broadband, the Coastal Communities Fund, the Technology Strategy Board and the regional growth fund. Then there are the universities and private funding. Where there is a project that has a lot of support behind it and is seen to be something that is really worthwhile, the funding, on the whole, can be found.\textsuperscript{56}

49. While we take some reassurance from Baroness Hanham that the Government is taking steps to address the problem, many organisations are still struggling to find match funding. The shortage of match funding options, together with the urgent need to contract and spend all the ERDF money by the relevant deadlines so as not to lose it, increases the risk that the value for money of projects may not be as high as they could otherwise be. We asked Baroness Hanham whether weaker projects might be approved if stronger projects were unable to secure match funding:

I guess the answer is yes; if you cannot get money, you probably cannot put forward your best projects.\textsuperscript{57}

50. \textbf{We are concerned that the lack of availability of match funding remains a serious impediment to the success of ERDF in England, almost a year since DCLG assumed responsibility. We are concerned that the Government does not seem to appreciate

\begin{itemize}
\item \textsuperscript{52} Ev w4
\item \textsuperscript{53} For example, Ev w13 [Nottingham City Council], para 4.5 and Ev w87 [One East Midlands], para 3.3
\item \textsuperscript{54} Ev w8, para 4.6
\item \textsuperscript{55} Q 101
\item \textsuperscript{56} Q 106
\item \textsuperscript{57} Q 115
\end{itemize}
fully the problems caused by the shortage of match funding. This problem, together with DCLG’s sensible desire to see all the ERDF money spent by the end of 2015, increases the risk that value for money will suffer.

**Regional Growth Fund**

51. Following the closure of the RDAs Ministers frequently recommended that organisations should use the Regional Growth Fund (RGF) for match funding. RGF supports businesses in England through grants and loans, and is worth £2.4 billion between 2011–12 and 2014–15; it is administered by the Department for Business, Innovation and Skills. We heard that access to RGF was problematic. Derbyshire County Council said that:

An initiative to align ERDF to support projects applying to the Regional Growth Fund was launched in 2011 across the 5 former coalfield Priority Axis 2 areas. It was agreed to commit 20% of the ERDF area’s allocation to support the delivery of RGF proposals. This commitment equated to £2.8m of funding from the 5 authorities – averaging £560,000 per area.

Although projects seeking both Regional Growth Fund and ERDF were submitted and endorsed, none have been able to proceed due to difficulties in aligning the deadlines and the delays in processing and agreeing the RGF applications.

52. We also heard that securing match funding from RGF had been difficult because it had different objectives to ERDF. Linda Edworthy explained that:

the principal aim of the Regional Growth Fund has been to push money out directly to individual businesses for them to improve and grow their own individual business. That is not what the objectives of the European Regional Development Fund are generally about.

53. The decision-making processes of the two funds were dissimilar, making it even harder for projects to make use of both funds. Decisions on RGF bids are made centrally by a group of Ministers, chaired by the Deputy Prime Minister. Decisions on bids for ERDF funding are made locally, usually by Local Management Committees, in a variety of approaches tailored to the priorities of the local area, including the use of open bidding rounds, or non-competitive selection where only one organisation appears suitable to deliver the project.

54. The Government’s *Local Growth* White Paper, published in October 2010 stated that the Government would “encourage alignment of RGF with ERDF, where the aims of bids

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58  For example, HC Deb, 9 May 2011, col 1032W
59  Evw23
60  Q 25
61  Ev w8 [Leicester City Council], para 4.7
62  “Regional Growth Fund” at www.bis.gov.uk/policies; as well as the Deputy Prime Minister, the group is made up of the Chief Secretary to the Treasury and the Secretaries of State for: Business, Innovation and Skills, Communities and Local Government, Transport and Environment Food and Rural Affairs.
63  “Applying for ERDF funding” at www.communities.gov.uk/regeneration
are eligible for support from both Funds”. However, Baroness Hanham noted that the RGF was still not sufficiently aligned with ERDF:

We have been quite disappointed in the regional growth fund. We had none at all in the first round. I think I am right in saying that 10 projects went forward in the next round, of which three so far have been agreed. I would like to see much more coming out of the regional growth fund because, after all, it is all working in the same direction—to get businesses up and running and to achieve growth. We are looking hard to see how we make sure that they fit the regional growth criteria.

55. One option we considered would be for the Government to set aside part of RGF budget specifically to provide match funding for ERDF, which Baroness Hanham considered “a lovely suggestion”. DCLG did not support it, however, when it provided supplementary written evidence, noting that 93% of the ERDF budget had already been contracted or has been applied for, leaving only £200 million needing match funding:

In view of the range of other central Government and public and private sector sources available, we do not consider that it will be necessary to top slice funding from the Regional Growth Fund to make up the outstanding £200m.

Furthermore, it is already possible for the Regional Growth Fund to be used as match funding for ERDF without the necessity for top-slicing.

While DCLG is correct to state that RGF money is available to act as match funding for ERDF, the evidence we received indicated that, in practice, it was extremely difficult to make use of it.

56. We recommend that the Government reconsiders its decision not to set aside part of the Regional Growth Fund (RGF) budget to provide match funding for ERDF. We conclude that the Government needs to demonstrate greater strategic oversight in aligning funding streams, both in the short term and from 2014 onwards, to ensure that all the resources available are being used in a coherent way.

64 Department for Business, Innovation and Skills, Local growth: realising every place’s potential, Cm 7961, para 2.34.
65 Q 102
66 Q 103
67 Ev 47
4 Improvements for the 2014–20 round

57. ERDF forms a key strand of the EU’s regional policy. In chapters 2 and 3 we considered the ERDF round for 2007–13; in this chapter we look ahead to the next round covering 2014–20, plans for which have been under development for several years. The key dates of this development, and the next steps, are set out in table 5 below:

Table 5: Key milestones towards 2014–20

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2008</td>
<td>Commission published <em>The Regions 2020</em> report, setting out the challenges for EU regions.</td>
</tr>
<tr>
<td>March 2010</td>
<td>Commission published <em>Europe 2020</em>, a new economic and social strategy.</td>
</tr>
<tr>
<td>January 2011</td>
<td>UK government responded to the Cohesion Report, including calls for greater flexibility for Member States, a reduction in the administrative burdens, a concentration of funds on poorer Member States, a smaller Structural Funds budget and greater use of loans and financial engineering instruments.</td>
</tr>
<tr>
<td>October 2011</td>
<td>Commission published the draft ERDF regulations for 2014–2020; negotiations are in progress.</td>
</tr>
<tr>
<td>March 2012</td>
<td>Commission published the Common Strategic Framework which established the strategy for all programmes across the EU in 2014–2020 and defines the key activities that each fund (including ERDF) will be able to support. Consultation on this document is ongoing.</td>
</tr>
<tr>
<td>March 2012</td>
<td>BIS launched an informal consultation on the draft Partnership Contract for Structural Funds in England for 2014–20. Each Member State must produce a Partnership Contract which sets out the strategy and rationale for how the Funds are to be deployed, drawing on the Common Strategic Framework for the whole EU. The consultation lasted for one month and the Government will respond in July 2012.</td>
</tr>
<tr>
<td>September 2012</td>
<td>Process begins to agree the Partnership Contract with the Commission.</td>
</tr>
<tr>
<td>Early 2013</td>
<td>Formal consultation, run jointly with the devolved administrations, on the Partnership Contract.</td>
</tr>
<tr>
<td>June 2013</td>
<td>Approval for the Partnership Contract expected from the Commission.</td>
</tr>
</tbody>
</table>
58. The monetary value of ERDF for the 2014–20 period will be determined as part of negotiations over the EU’s overall budget for that period, known as the Multiannual Financial Framework (MFF). The initial proposal set a limit of €183 billion for ERDF. Discussions are ongoing, and the MFF should be agreed before the end of 2012.

**Proposals for ERDF 2014–20**

59. The Commission published its Common Strategic Framework in March 2012, in which it outlined key changes to the EU’s regional policy for 2014–20:

- concentration of resources on the objectives of Europe 2020 through a common set of thematic objectives to which the funds will contribute;
- simplification through more coherent planning and implementation arrangements;
- a reinforced focus on results through a performance framework and reserve; and
- harmonisation of eligibility rules and an extension of simplified cost options to reduce the administrative burden for beneficiaries and managing authorities.

60. Difficulties in making use of more than one of the EU’s funding streams has been a source of frustration for organisations. Cornwall’s Superfast Broadband project will receive £53.5 million of ERDF during 2007–13, making it England’s largest single ERDF beneficiary. Match funding is coming from BT, who will invest £78.5 million. Cornwall Council, however, was unable to combine this ERDF funding with the European Agricultural Fund for Rural Development (EAFRD):

> There have been missed opportunities to link funds together where programme restrictions have not allowed this. A key example is the integration of ERDF and EAFRD funding for rural broadband. At the time of developing the Operational Programme for the ERDF, in order to ensure demarcation between ERDF and EAFRD activity it was agreed that EAFRD would not be used to support broadband investments in the Convergence area.

**Simplification of applications**

61. The Commission has proposed a Common Provisions Regulation to replace the separate guidelines and rules issued for each of the funds to make them more integrated.
and cheaper to administer. Bidders could make a single online application for funding, and also benefit from a more streamlined compliance and audit regime. Moreover, under the Commission’s proposals, Member States could choose to combine ERDF, ESF and the Cohesion Fund in a single programme, simplifying things further.

62. We welcome the Commission’s proposed Common Provisions Regulation, which is a move towards simplification as a way of reducing the costs of the EU’s regional funds for both taxpayers and organisations bidding for funding. We encourage the Government to take advantage of the opportunity this offers to streamline the system in England.

Local needs

63. A number of organisations have told us that it would be helpful if the ERDF Operational Programme areas could be tailored more to local needs, rather than determined by fixed regional boundaries. One option would be to allow Local Economic Partnerships (LEPs) to take on responsibility for directing and administering ERDF. In a joint submission, the Chief Economic Development Officers Society (CEDOS) and the Association of Directors of Environment, Economy, Planning and Transportation (ADEPT) told us:

Local Enterprise Partnership areas, as functional economic areas, present an obvious geographical starting point for a devolved approach. Whilst LEP areas vary in size, overlap in some areas and do not necessarily cover the same areas as the regions used by the EU in determining ERDF funding eligibility, these ought not to be insurmountable problems, providing LEPs have the ability to work jointly on cross-boundary issues and come together in larger groupings to achieve critical mass and address broader regional issues where it is appropriate to do so.

64. The Commission’s proposals also include measures such as Integrated Territorial Investments and Joint Action Plans which would help bring elements of planning, decision-making and management to a local level. Although these proposals would appear to us to fit into the Government’s localism agenda, Baroness Hanham, when asked if the Government was in favour of handing control over ERDF budgets to cities and city regions, told us:


75  For example, Ev w83 [Birmingham City Council]

76  Ev 33, para 11

77  An Integrated Territorial Investment is an instrument which allows different EU funds to be bundled into an integrated investment strategy for a certain territory or functional area and for implementation to be delegated to one body (a local authority) to ensure that investments are undertaken in a complementary manner. A Joint Action Plan is an integrated operation in order to achieve specific objectives jointly agreed between the Member State and the Commission. It comprises a group of projects which are carried out under the responsibility of a designated beneficiary (European Commission Staff Working Document, Elements for a Common Strategic Framework 2014 to 2020, March 2012, pp 9–10).
I don’t think we have made any decisions on it yet, because nothing has come forward that would deal with that [...] I am reserving my position on that because, as I say, we have had no applications, and no real thoughts about it, but [...] I think we would consider it.78

Conclusions

65. We welcome the Commission’s proposals to harmonise its regional policy funds. It is vital that the available money is used effectively and efficiently; aligning the funding streams more closely should make it simpler and cheaper to administer, and easier for projects to access the funds. We also welcome the move towards a more flexible geographic basis to the Operational Programmes which should devolve management responsibility to groups such as Local Economic Partnerships. This will bring the decision-making process closer to the communities seeking funding, and should also make it easier to fund projects that span artificial regional boundaries.

Funding conditionality

66. The Commission proposes to introduce a range of conditionalities to place restrictions on funding allocations from 2014, which will be based on:

- meeting regulatory and institutional conditions before funding is released (“ex ante conditionality”);
- linking funding to performance through a small performance reserve which would be allocated to regions that meet their targets (“ex post conditionality”); and
- macroeconomic indicators, such as adherence to the EU Stability and Growth Pact.79

67. The Government agrees with the principle of attaching conditions to the receipt of Structural and Cohesion Funds, but has a number of concerns.80 The Government supports ex ante conditionalities, provided they are necessary, proportionate, respect subsidiarity and are clearly set out in the regulations. The Government also supports ex post conditionality in terms of a strong performance framework that ensures the effective use of funds, but it opposes the Commission’s proposal to set up a performance reserve, worth 5% of all funds, to reward Member States for meeting certain milestones by 2018. Under the current proposal, Member States would receive funding from the reserve in 2019, and have to spend that money by 2022. The Government argues that this is too late in the process, and will cause unnecessary uncertainty.81

68. The Government’s concerns over macroeconomic conditionality relate to its application to the UK, which it strongly opposes. When HM Treasury gave evidence to the

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78 Qq 93–94
80 Ev 48
81 As above
House of Lords European Union Committee for its inquiry into the EU’s Multiannual Financial Framework for 2014–20, it stated that:

The UK is in a different position from other Member States; first, as a result of our protocol to the treaty, which means that, under the stability and growth pact, we do not have the same obligations as others; and, secondly, because the Van Rompuy report on economic governance is very clear that wider macroeconomic conditionality should be applied to euro area Member States only, and that was supported by euro area Member States.82

69. We support the general principle of funding conditionality as a way of ensuring ERDF and other funds are directed towards Member States that can use the money most effectively. We agree with the Government that, on the basis of previous commitments made in the EU, macroeconomic conditionality should not apply to the UK, and we support the Government in taking a firm negotiating position on this.

**Allocating the ERDF budget across the EU**

70. The overall budget for ERDF for 2014–20 is to be allocated to individual regions based on a relative measure of prosperity, in terms of Gross Domestic Product per person expressed as a percentage of the EU average.83 For 2007–13 regions received funding either under the Convergence objective (where its GDP per person was less than 75% of the EU average) or the Regional Competitiveness and Employment objective (75% and over).84 Under the proposals for the 2014–20 round three categories would be used, rather than two:

- More Developed (regions > 90% of EU average GDP per capita – most of UK);
- Transition Regions (regions 75%–90%); and
- Less Developed (regions < 75%).85

71. The EU average has, in the past, been calculated on a three-year basis, known as the “reference period”. For the 2007–13 funds this period covered 2000–02 because of the time lag in data collection and analysis. It is not clear what the reference period will be for 2014–20, but, in light of the volatile economic conditions in the EU, the selection of reference period will be crucial in determining which funding category the English regions will fall into. Using the latest GDP statistics released in March 2012 (the average for 2007–09) most English regions would be classified as More Developed, and receive the lowest level of funding of the three categories. Cornwall and the Isles of Scilly would be the only region classed as Less Developed, and continue to receive the highest level of funding (although if

83 Proposed Council Regulation (EC) No 2011/0276, Article 82 (2)
84 Council Regulation (EC) No 1083/2006, Articles 5 (1) and 6
85 Proposed Council Regulation (EC) No 2011/0276, Article 82 (2)
a 2006–08 reference period was chosen it would fall into the Transition category). The following regions would receive the intermediate level of Transition funding:

- Cumbria (89.5% of EU average GDP per capita)
- Devon (88.1%)
- East Yorkshire & Northern Lincolnshire (85.8%)
- Lancashire (84.9%)
- Lincolnshire (79.8%)
- Merseyside (80.2%)
- Shropshire & Staffordshire (83.9%)
- South Yorkshire (84.5%)
- Tees Valley & Durham (78.5%).

72. Professor Fothergill supported the introduction of the Transition category, noting that the previous arrangement had created a steep cliff-edge effect between the two funding levels:

> I think that is a positive step forward, and I know that, out in the regions of England, it is also viewed as a positive step forward. The problem is that in the present spending round there has been little formal differentiation between regions that are just above the magic threshold of 75% of the EU average GDP: those at 78% have been treated the same as those at 135%.

73. The Government explained in supplementary written evidence that it was opposed to the introduction of the Transition category:

> A key priority for the UK is EU budget restraint and as such to keep our contributions to the EU budget as low as possible. In addition the UK believes that Structural Funds should focus on stimulating economic development in the less wealthy Member States. The introduction of a category for Transition regions, as proposed by the Commission, goes against this principle.

74. Creating a third category does not, however, automatically preclude the EU from directing Structural Funds towards the poorest regions. In our view, the key factor will be how the total available funds are shared between the three funding categories, but it is not yet clear whether this has been finalised. The Commission has published indicative budgets for ERDF and ESF combined, which show that the least developed regions will indeed receive by far the largest share of Structural Funds on a per capita basis:

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86 “Regional GDP per capita in 2009: seven capital regions in the ten first places”, Eurostat news release 38/2012, 13 March 2012

87 Q 55

88 Ev 47
Table 6: EU Structural Funds 2014–20, indicative allocations

<table>
<thead>
<tr>
<th>Region</th>
<th>Billion €</th>
<th>Million people</th>
<th>€ per person</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less developed regions</td>
<td>162.6</td>
<td>119.2</td>
<td>1,364</td>
</tr>
<tr>
<td>Transition regions</td>
<td>38.9</td>
<td>72.4</td>
<td>537</td>
</tr>
<tr>
<td>More developed regions</td>
<td>53.1</td>
<td>307.1</td>
<td>173</td>
</tr>
<tr>
<td>Total / average</td>
<td>254.6</td>
<td>498.7</td>
<td>511</td>
</tr>
</tbody>
</table>

75. Under the proposals, and in line with the EU’s principle of concentrating the available Structural Funds resources to best effect, ERDF must be mainly spent on three EU priorities: energy efficiency and renewables, innovation and SME support. In the Lesser Developed regions 50% of funding must be spent on these priorities, and 80% of funding in Transition and More Developed regions.

76. The UK Government argued that, in principle, the EU’s wealthier states should not receive Structural Funds for regional development, but has acknowledged that this is not a practical option in the short term:

Substantial savings could be made if all wealthier Member States, including the UK did not receive Structural Funds. However this would require agreement by all Member States during the negotiations on the 2014–2020 budget. The argument was not successful in the negotiations for the previous period 2007–13.

Given the required time for adjustment—particularly in this difficult financial climate—wealthier states should continue to receive funding during the 2014–2020 period, but allocations in richer areas, particularly in the richer Member States, should fall significantly.

The UK position is that after 2020, wealthier Member States, including the UK, should not receive Structural Funds.

77. Open Europe—a UK think tank—wants wealthier states to stop receiving Structural Funds more quickly than this, and argues that only countries with GDP per capita below 90% of the EU average should receive funding, the same threshold used by the EU Cohesion Fund. Open Europe calculated that this threshold could have saved €4.6 billion from the UK’s gross contribution of €36 billion if it had applied for the 2007–13 period. Because this proposal applies a threshold on a Member State, rather than a regional basis, poor regions within otherwise wealthy countries would lose EU funding. Open Europe

90 Proposed Council Regulation (EC) No 2011/0275, Article 4
91 Ev 45–46, paras 27–28 and 34
92 Open Europe, Off Target: The case for bringing regional policy back home, January 2012, p 9, 23. These figures include ERDF, ESF and the Cohesion Fund.
suggested that wealthy states would be able to direct the savings they would make under this proposal towards their own regions and according to their own priorities.  

78. As with any proposed change, moving to a 90% threshold would generate losers as well as winners, and some kind of compensating funding arrangement would be required to gain their acceptance. According to Open Europe, the three worst affected Member States (in terms of net loss per capita) would have been Greece, Spain and Italy:

Table 7: Estimated impact of 90% EU Structural and Cohesion Funds threshold on selected Member States

<table>
<thead>
<tr>
<th>Member State</th>
<th>GDP per capita (% of EU average)</th>
<th>Estimated net gain/loss (€ billion)</th>
<th>Estimated net gain/loss per capita (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>108</td>
<td>12.1</td>
<td>186</td>
</tr>
<tr>
<td>Poland</td>
<td>59</td>
<td>4.5</td>
<td>118</td>
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<tr>
<td>Romania</td>
<td>46</td>
<td>1.6</td>
<td>75</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>113</td>
<td>4.6</td>
<td>74</td>
</tr>
<tr>
<td>Germany</td>
<td>117</td>
<td>2.6</td>
<td>32</td>
</tr>
<tr>
<td>Italy</td>
<td>103</td>
<td>- 8.5</td>
<td>- 140</td>
</tr>
<tr>
<td>Spain</td>
<td>103</td>
<td>- 21.4</td>
<td>- 464</td>
</tr>
<tr>
<td>Greece</td>
<td>92</td>
<td>- 17.0</td>
<td>- 1,503</td>
</tr>
</tbody>
</table>

79. We consider that ERDF resources should be targeted at the poorest EU regions, and it would appear that the Commission’s proposals for 2014–20 weight the funding towards those regions appropriately. The introduction of the Transition category of regions will reduce the cliff-edge effect that exists under the current arrangement and is a sensible development. It is clear that withdrawing funding entirely from wealthier Member States is not supported for the 2014–20 ERDF round and we agree with the Government’s decision not to pursue it in negotiations. The Government should, however, continue to put forward its arguments with the aim of securing enough support from other Member States for subsequent ERDF rounds.

80. In the next chapter we examine in more detail how ERDF funding and regional policy could be repatriated.

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93 Open Europe, Off Target: The case for bringing regional policy back home, January 2012, p 26
94 Adapted from Open Europe, Off Target: The case for bringing regional policy back home, January 2012, p 22
5 Repatriating regional policy

81. We considered whether regional policy in the UK should be entirely managed and funded by the UK itself with the UK’s contribution to EU Structural and Cohesion funds going only to the poorer Member States. Open Europe suggested that regional funding from Brussels should be replaced by an equal level of ring-fenced funding from Westminster. The UK could also choose to spend the money it would save, from not funding Member States above the 90% threshold, on its own regional policy:

> Devolving regional policy should involve the Coalition promising to ring-fence the £8.7bn that it currently receives via the EU’s structural funds for continued regional and regeneration spending around Britain. In addition, it could pledge to re-invest its projected saving of up to £4.2bn under the 90% threshold back into regional development. This would mean that virtually all UK regions would experience a rise in the amount of subsidies they receive by around 45%.95

82. Open Europe proposed that, under this model, regional funding could be channelled more effectively to national, rather than EU, priorities. It could afford greater flexibility to respond to changing economic priorities, rather than be constrained by a set of objectives fixed for a seven year period.96 We also heard that removing the involvement of the EU would reduce some of the bureaucracy, administration and audit requirements that some witnesses commented on.97 The Government has indicated that it wants wealthier states, such as the UK, to stop receiving Structural Funds after 2020.98 This would mean that responsibility for all aspects of regional policy, and its funding, would return to the UK.

83. As we have noted, this policy of repatriation was not supported by other Member States during negotiations for the 2007–13 period, and is opposed by the Welsh Assembly Government, which receives by far the most Convergence funding in the UK for the West Wales and the Valleys region (€1.3 billion).99 It is also opposed by many organisations that submitted written evidence, who value the long-term nature and focus of the funding streams. CEDOS/ADEPT said that:

> The seven year programming cycle provides continuity and facilitates strategic programming and the development time required for large-scale projects. It avoids the precipitous ‘dash for cash’ that can be the case with shorter lived funds or those whose lifetime is uncertain.100

95 Ev 38
96 Open Europe, Off Target: The case for bringing regional policy back home, January 2012, p 18
97 For example, Ev w94 [Centre for Process Innovation], para 3.2.2.1
98 Ev 46, para 34
100 Ev 33, para 12
84. Cornwall Council noted that “Seven year European funding programmes are outside of political timescales”. We note that it would be difficult to ring-fence money for any period longer than a UK public spending round (three or four years) or the five year electoral cycle, but since the EU Multiannual Financial Framework already sets the UK’s regional funding on a seven year basis it follows that in certain circumstances special arrangements could be made. The current ERDF arrangement effectively removes this part of regional funding from the UK spending round cycle and so the change proposed would not alter that. There is therefore a solid basis for HM Treasury to maintain a seven year cycle, and to secure a formal agreement with the EU to set funding levels in line with what would have been agreed under the EU system. The Government will need to think creatively and take the lead in driving this agenda forward to negotiate a successful outcome with the Commission and other Member States.

85. We support the principle of repatriating regional policy funding, provided funding could be protected and ring-fenced over the long-term to ensure that the poorest English regions continued to receive the same level of support they would have received under the current system. The mechanism for achieving this objective will require the consent of other Member States and the Commission, as well as agreement with HM Treasury that the funding be guaranteed for the same seven year cycle.
Conclusions and recommendations

Impact and value for money

1. The European Regional Development Fund (ERDF) is highly valued by local authorities and other recipients. It has made vital contributions to a variety of projects across the country, many of which would not have gone ahead without ERDF money. (Paragraph 19)

2. We recognise that it is difficult to isolate the impact of ERDF from other factors, but in these economic times the taxpayer must be reassured that public money is being spent efficiently and effectively. We are concerned that it has been so difficult to assess the value for money of ERDF; we recommend that the Government should evaluate this and report to us by the summer of 2013 on what has been achieved in each region. It should also ensure that monitoring and evaluation is improved and streamlined for the 2014–20 ERDF round. (Paragraph 25)

3. Although the majority of benefits are realised in later years, the evidence available to us suggests that ERDF 2007–13 has not yet made a significant impact. It is not even possible to conclude that the 2000–06 ERDF round has done so, because of the lack of robust evidence. The challenges facing regions such as Cornwall and the Isles of Scilly are profound, and ERDF can only provide part of any solution. (Paragraph 27)

The role of DCLG

4. We found support for the manner in which DCLG has managed ERDF in England following the decision to abolish the Regional Development Agencies (RDAs). Significantly, the decision to transfer former RDA staff to DCLG and leave them located in the regions has smoothed the transition. Where there was criticism it was that the transition had, in some areas, caused delays, particularly in approving new projects. We recommend that DCLG review arrangements for approving projects in those areas where delays have been reported. (Paragraph 38)

5. ERDF is particularly useful for innovative projects which, because of the lack of alternative funding sources, might otherwise be unable to proceed. We urge DCLG to ensure that novel projects are supported, and not put at a disadvantage in a rush to get ERDF money spent on more straightforward, but potentially less beneficial, projects. (Paragraph 41)

6. We are concerned that the lack of availability of match funding remains a serious impediment to the success of ERDF in England, almost a year since DCLG assumed responsibility. We are concerned that the Government does not seem to appreciate fully the problems caused by the shortage of match funding. This problem, together with DCLG’s sensible desire to see all the ERDF money spent by the end of 2015, increases the risk that value for money will suffer. (Paragraph 50)

7. We recommend that the Government reconsiders its decision not to set aside part of the Regional Growth Fund (RGF) budget to provide match funding for ERDF. We
conclude that the Government needs to demonstrate greater strategic oversight in aligning funding streams, both in the short term and from 2014 onwards, to ensure that all the resources available are being used in a coherent way. (Paragraph 56)

**Improvements for the future**

8. We welcome the Commission’s proposed Common Provisions Regulation, which is a move towards simplification as a way of reducing the costs of the EU’s regional funds for both taxpayers and organisations bidding for funding. We encourage the Government to take advantage of the opportunity this offers to streamline the system in England. (Paragraph 62)

9. We welcome the Commission’s proposals to harmonise its regional policy funds. It is vital that the available money is used effectively and efficiently; aligning the funding streams more closely should make it simpler and cheaper to administer, and easier for projects to access the funds. We also welcome the move towards a more flexible geographic basis to the Operational Programmes which should devolve management responsibility to groups such as Local Economic Partnerships. This will bring the decision-making process closer to the communities seeking funding, and should also make it easier to fund projects that span artificial regional boundaries. (Paragraph 65)

10. We support the general principle of funding conditionality as a way of ensuring ERDF and other funds are directed towards Member States that can use the money most effectively. We agree with the Government that, on the basis of previous commitments made in the EU, macroeconomic conditionality should not apply to the UK, and we support the Government in taking a firm negotiating position on this. (Paragraph 69)

11. We consider that ERDF resources should be targeted at the poorest EU regions, and it would appear that the Commission’s proposals for 2014–20 weight the funding towards those regions appropriately. The introduction of the Transition category of regions will reduce the cliff-edge effect that exists under the current arrangement and is a sensible development. It is clear that withdrawing funding entirely from wealthier Member States is not supported for the 2014–20 ERDF round and we agree with the Government’s decision not to pursue it in negotiations. The Government should, however, continue to put forward its arguments with the aim of securing enough support from other Member States for subsequent ERDF rounds. (Paragraph 79)

12. We support the principle of repatriating regional policy funding, provided funding could be protected and ring-fenced over the long-term to ensure that the poorest English regions continued to receive the same level of support they would have received under the current system. The mechanism for achieving this objective will require the consent of other Member States and the Commission, as well as agreement with HM Treasury that the funding be guaranteed for the same seven year cycle. (Paragraph 85)
Formal Minutes

Wednesday 4 July 2012

Members present:

Mr Clive Betts, in the Chair

Heidi Alexander  
Bob Blackman  
Simon Danczuk  
Bill Esterson  
David Heyes  
James Morris  
Mark Pawsey

Draft Report (*European Regional Development Fund*), proposed by the Chair, brought up and read.

*Ordered*, That the Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 85 read and agreed to.

Summary agreed to.


*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report (in addition to that ordered to be reported for publishing on 16, 23 and 30 April): Chief Economic Development Officers Society (CEDOS) and the Association of Directors of Environment, Economy, Planning & Transport (ADEPT), Department for Communities and Local Government and Open Europe.

[Adjourned till 9.15am, Monday, 9 July]
Witnesses

Monday 30 April 2012

Dr José Palma Andrés, Director in Regional Policy, responsible for Belgium, France, Ireland, Luxembourg, United Kingdom and Territorial co-operation, Councillor Peter Box CBE, Local Government Association and Linda Edworthy, CEDOS/ADEPT

Wednesday 9 May 2012

Professor Steve Fothergill, Centre for Regional Economic and Social Research, Sheffield Hallam University and Mats Persson, Director, Open Europe

Baroness Hanham CBE, Parliamentary Under-Secretary of State, Department for Communities and Local Government

List of printed written evidence

Chief Economic Development Officers Society (CEDOS) and the Association of Directors of Environment, Economy, Planning & Transport (ADEPT) Ev 30, 49
Department for Communities and Local Government Ev 41, 47
European Commission Ev 25
Professor Steve Fothergill Ev 33
Local Government Association Ev 27
Open Europe Ev 37, 49

List of additional written evidence

(published in Volume II on the Committee’s website www.parliament.uk/clgcom)

Ashfield District Council Ev w32
Aspinall Verdi Ev w9
Barnsley MBC, Doncaster MBC, Rotherham MBC, Sheffield CC Ev w51
Birmingham City Council Ev w82
Bolsover District Council Ev w19
Centre for Construction Innovation North West Ev w48
Centre for Process Innovation Ev w93
Chesterfield Borough Council Ev w61
Core Cities Group Ev w71
Cornwall Council Ev w39
<table>
<thead>
<tr>
<th>Organization</th>
<th>Ev</th>
<th>w</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross River Partnerships</td>
<td></td>
<td>78</td>
</tr>
<tr>
<td>Derby City Council</td>
<td></td>
<td>67</td>
</tr>
<tr>
<td>Derbyshire County Council</td>
<td></td>
<td>83</td>
</tr>
<tr>
<td>Devon County Council</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>Durham County Council</td>
<td></td>
<td>81</td>
</tr>
<tr>
<td>English Heritage</td>
<td></td>
<td>35</td>
</tr>
<tr>
<td>Essex County Council</td>
<td></td>
<td>64</td>
</tr>
<tr>
<td>Federation of Small Businesses</td>
<td></td>
<td>97</td>
</tr>
<tr>
<td>Greater London Authority</td>
<td></td>
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<tr>
<td>Greater Manchester Combined Authority</td>
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</tr>
<tr>
<td>The Heritage Alliance</td>
<td></td>
<td>58</td>
</tr>
<tr>
<td>Industrial Communities and Alliance</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Institute of Historic Building Conservation</td>
<td></td>
<td>78</td>
</tr>
<tr>
<td>Kent County Council</td>
<td></td>
<td>18</td>
</tr>
<tr>
<td>Leicester City Council</td>
<td></td>
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</tr>
<tr>
<td>Local management Committee for the West Midlands</td>
<td></td>
<td>68</td>
</tr>
<tr>
<td>London Councils</td>
<td></td>
<td>88</td>
</tr>
<tr>
<td>Des McConaghy</td>
<td></td>
<td>90, 92</td>
</tr>
<tr>
<td>National Housing Federation</td>
<td></td>
<td>24</td>
</tr>
<tr>
<td>National Trust</td>
<td></td>
<td>37</td>
</tr>
<tr>
<td>Network for Europe</td>
<td></td>
<td>76</td>
</tr>
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</tr>
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<td>West Midlands Councils</td>
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</tbody>
</table>
## List of Reports from the Committee during the current Parliament

The reference number of the Government’s response to each Report is printed in brackets after the HC printing number.

### Session 2012–13

<table>
<thead>
<tr>
<th>First Report</th>
<th>Park Homes</th>
<th>HC 177-I</th>
</tr>
</thead>
</table>

### Session 2010–12

<table>
<thead>
<tr>
<th>First Special Report</th>
<th>Beyond Decent Homes: Government response to the Committee’s Fourth Report of Session 2009–10</th>
<th>HC 746</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Report</td>
<td>Local Authority Publications</td>
<td>HC 666 (HC 834)</td>
</tr>
<tr>
<td>Second Special Report</td>
<td>Local Authority Publications: Government response to the Committee’s Sixth Report of Session 2010–11</td>
<td>HC 834</td>
</tr>
<tr>
<td>Second Report</td>
<td>Abolition of Regional Spatial Strategies: a planning vacuum?</td>
<td>HC 517 (Cm 8103)</td>
</tr>
<tr>
<td>Third Special Report</td>
<td>FiReControl: Government response to the Committee’s Fifth Report of Session 2009–10</td>
<td>HC 835</td>
</tr>
<tr>
<td>Third Report</td>
<td>Localism</td>
<td>HC 547 (Cm 8183)</td>
</tr>
<tr>
<td>Fourth Report</td>
<td>Audit and inspection of local authorities</td>
<td>HC 763 (Cm 8209)</td>
</tr>
<tr>
<td>Fifth Report</td>
<td>Localisation issues in welfare reform</td>
<td>HC 1406 (Cm 8272)</td>
</tr>
<tr>
<td>Sixth Report</td>
<td>Regeneration</td>
<td>HC 1014 (Cm 8264)</td>
</tr>
<tr>
<td>Seventh Report</td>
<td>Pre-appointment hearing for the Government’s preferred nominee for Chair of the Homes and Communities Agency Regulation Committee</td>
<td>HC 1612</td>
</tr>
<tr>
<td>Eighth Report</td>
<td>The National Planning Policy Framework</td>
<td>HC 1526 (Cm 8322)</td>
</tr>
<tr>
<td>Ninth Report</td>
<td>Taking forward Community Budgets</td>
<td>HC 1750</td>
</tr>
<tr>
<td>Tenth Report</td>
<td>Building regulations applying to electrical and gas installation and repairs in dwellings</td>
<td>HC 1851 (Cm 8369)</td>
</tr>
<tr>
<td>Fourth Special Report</td>
<td>Preventing violent extremism: Government response to the Committee’s Sixth Report of Session 2009–10</td>
<td>HC 1951</td>
</tr>
<tr>
<td>Eleventh Report</td>
<td>Financing of new housing supply</td>
<td>HC 1652</td>
</tr>
</tbody>
</table>
Oral evidence

Taken before the Communities and Local Government Committee
on Monday 30 April 2012

Members present:

Mr Clive Betts (Chair)
Bob Blackman
Simon Danczuk
Stephen Gilbert
George Hollingbery
James Morris
Mark Pawsey
Heather Wheeler

Examination of Witnesses

Witnesses: Dr José Palma Andrés, Director in Regional Policy, responsible for Belgium, France, Ireland, Luxembourg, United Kingdom and Territorial co-operation, Councillor Peter Box CBE, Local Government Association, and Linda Edworthy, CEDOS/ADePT, gave evidence.

Q1 Chair: Good afternoon and welcome to our first evidence session for the inquiry into the European Regional Development Fund. For the sake of our records, could you introduce yourselves and state the organisation that you represent?

Linda Edworthy: I am Linda Edworthy from the Chief Economic Development Officers’ Society.

Dr Palma Andrés: I am Dr Palma Andrés, and I am a Director in the European Commission.

Peter Box: I am Peter Box, representing the LGA today.

Q2 Chair: Thank you for coming and for your evidence so far, and apologies for keeping you waiting. I think you have been watching at the back to see how we do things, so I hope that you at least recognise that we try to do things thoroughly in taking evidence. That took a little longer to do that than we had initially anticipated.

Clearly, the ERDF is quite a considerable sum of money. How important do you think it is in terms of promoting regional economic growth and trying to do something to reduce regional disparities? Who would like to start?

Peter Box: I’ll start; obviously, nobody else wants to.

It is probably a myth that there has ever been a golden age when there was unlimited capital funding available for local authorities, so it has played a huge part right across the country in making a big difference. If you look at what happened in Birmingham in the 1990s, in your own city from 2000 onwards, Chair, and in Liverpool fairly recently, it has made a huge difference that otherwise would not have happened. If you look at my own authority of Wakefield, where I have been leader now for longer than I care to remember—that’s the truth—we estimate that, over 20 years, over 10,000 jobs have been created with £120 million-worth of structural funds, and that has levered in about £1 billion of private sector investment. We believe that that has given real value for money, and it has made a difference that would not have happened without that funding.

Dr Palma Andrés: From the European Commission point of view, I suppose that this policy is creating conditions for everyone to have the opportunity to participate and benefit from the internal market. In fact, we believe that in many regions, as was said, aid has already been regenerating the coal industry with a lot of first investments being done, and today these regions are still being helped with structural funds. In particular, this is an investment policy—a pure investment policy. There is no revenue to our service. It is in coherence with national policies and with European policies as well. From our point of view, it improves the opportunity for trade, for cohesion and for local and regional growth. I suppose that the ERDF is just a tool for this particular priority.

Linda Edworthy: I would echo my colleagues’ comments. The value for money element of the European funds, in terms of the current programmes, can only be assessed once they are completed, but the value of previous programmes has been significant. Sitting suspended for a Division in the House.

On resuming—

Q3 Chair: Linda Edworthy, you were just about to give us a response.

Linda Edworthy: Yes. Obviously, to start on the current programmes, a full evaluation can’t be undertaken until the programmes have ended. I understand that there is significant evidence suggesting that the impact of previous programmes has been extremely positive. One example I would give the Committee is the area of Consett in north-west Durham, which suffered the closure of its steelworks. Significant European funds were invested into the area to provide enabling infrastructure, road infrastructure, business accommodation and business support. Without that funding, the area would still be experiencing significant difficulties. That area now has reached full employment. The funding makes an extremely important contribution to regenerating areas.

Q4 Chair: There are two issues I want to pursue. One is value for money. The figures given to us by CLGC show that during the last ERDF round, by 2011 some £1 billion had been spent and some 9,000 jobs created, which works out at around £113,000 a job. It
does seem a little expensive. Is that good value for money? Specifically, Dr Palma Andrés, if you could pick this up, how does this compare with other European countries? Are we doing better or worse than what is happening elsewhere?

**Dr Palma Andrés:** I suppose that the UK is doing well. For instance, in the 2000 to 2006 period, more than 400,000 jobs were created in the whole of the UK. In 2007 to 2013, the programmes are going at this speed and in this direction, and already 36,000 jobs have been created. I suppose that the UK is average, or even a little bit above the average, and I suppose that with this cruise speed we will be in a kind of trend that is similar to 2000 to 2006. We think that jobs have been created in the areas that are needed, in particular in reconversion areas. Some examples have been given, and there are others. There are good examples in Yorkshire, in Cornwall and in areas of the north-west, in particular in financial engineering; there are very good success stories there. In the north-east as well, there is a very good combination between public and private sector. We believe that one of the reasons why the private sector is very much involved, for instance, in the financial engineering aspects is that they believe in the security of the funding for a multi-annual period when we create hedge fund or seed fund capital—venture capital, risk capital—so this is a very important aspect. We have very good examples. If you want, we can show you many of them in different constituencies and different areas of England where there are success stories.

**Q5 Chair:** You have just given figures that are completely different from those that the Government have given here. Is it possible for you to give us some more detailed briefing about those figures on jobs, both for the last period and for the current period, because they do not square up with the Government’s figure of 9,000 jobs created? Rather than doing that today, perhaps you can just drop us a note about that.

**Dr Palma Andrés:** We can send you a note afterwards?

**Chair:** Yes. That would be helpful, just to give us the details.

**Dr Palma Andrés:** No problem—with pleasure.

**Peter Box:** The figures I quoted from my own authority were over a 20-year period, so I think you have to look at the long term. Secondly, I also mentioned the amount of private sector investment. That should not be forgotten. I know that many Committee members have been involved in local government. If you get investment of that magnitude into a local authority, it can help create business confidence and stability. There are spin-offs, as well, for a particular area or local authority. I am sure that those figures may well be correct in themselves, but you have to look at the broader picture.

**Q6 Chair:** Finally from me, the areas that get help are the ones that get help again next time, aren’t they? This money may be doing some good, but is it really doing anything to reduce the growth differentials in capital income in these areas? Is it really lifting, relatively, the performance of the poorest areas? They seem to be the areas that get the money again the next time around.

**Linda Edworthy:** Obviously, we are in a very challenging economic climate at the moment, but for example, in my area, Tees Valley, we have not suffered the decline over the last two or three years that you might have expected us to suffer. In part, that is because of the support that has gone into the area to help businesses, help individuals set up in business and provide accommodation and activity around innovation projects.

**Peter Box:** The real issue is what the situation would be in particular areas if that funding had not been available. I know that my authority would have been a lot worse off without it.

**Q7 George Hollingbery:** I apologise to the panel: I have to run away fairly quickly after this. I am intrigued by what looks like a roundabout to me. I do not think that anybody would deny for a moment that the funds being used in the difficult areas of the UK are extremely valuable and are used very creatively in many ways, but we have had evidence submitted to us that the way money is taken and given back to wealthier regions is incredibly inefficient. First, vast amounts of the money coming back into the UK came from the UK. Secondly, more money comes out of the regions receiving money than they get back in again net, in terms of the grants. One estimate says that 70% of the money that comes from the UK goes to other member states, 5% is redistributed across regions and 25% is redistributed back to the same regions. Let us imagine an ideal world where we could guarantee that central Government would spend the same amount of money currently being spent by the European regional development funds, and could perhaps even ring-fence the amount that they might save by the scheme suggested to us, which involves a 90% limit—any country at 90% of the average GDP per capita would receive help, but nobody else would. Contributions to the UK would then come from the UK to those regions. Do you think there is a case that this money could be used much more efficiently by keeping money at home and spending it at home in the way that the EU currently does?

**Dr Palma Andrés:** We have the impression that that is a leverage effect. We have many examples given by the regions that without this structural funds contribution, an important part of projects would never have been done. That is the first evidence. The second is that the fact that they have a multi-annual programme allows them to have a socio-economic analysis and a strategic plan, which did not exist before. At the same time, there was a process of evaluation which allowed an idea of outputs and results such as we can show you today, because you are making an evaluation.

**Q8 George Hollingbery:** Let me stop you there, if I may. Let us assume, only for the sake of argument, that the same mechanisms for distribution and the same bidding process were in place, but that it was administered by, say, a body in London that accorded the same principles currently used to distribute that money. Is there an advantage to be gained by causing
wealthier nations to keep a good deal of the funds that they contribute within their own borders, rather than sending them into the EU and back out again? At the moment, it seems to me that a huge amount of money is being shuffled around and coming back exactly where it started. That does not seem terribly efficient.

**Peter Box:** One of the problems, I think, is that if it was repatriated to the UK Government, there would be a not unnatural temptation for any Government to keep it. What concerns us at local level—the LGA’s position is that it should be devolved down to sub-national areas. All the evidence shows that we have got huge disparities between local economies. The Centre for Cities produced a report in January that illustrated that very well. If I can give you one example, the number of NEETs in York is less than 10%; the number in Barnsley is something like 28%. We have got huge disparities between local economies. So it has to be devolved down to the local level.

**Q9 George Hollingbery:** Again, with due respect, I don’t think you’re addressing the question that I posed to you. I am not sure that there’s a temptation on Government to use this money in different ways; I completely accept that. There are political temptations; there are party political temptations. But if we can just work in the ideal world, in the stratosphere up there where everything is wonderful and everyone is an angel, and we redistributed the money in the same way as it is currently done by the EU, with the same metrics, would it be cheaper and more efficient to do it that way?

**Peter Box:** I am here representing the LGA. The LGA’s position is that it should be devolved down to sub-national areas.

**Q10 George Hollingbery:** Let’s just leave it with the EU.

**Dr Palma Andrés:** I am not sure, for a simple reason. First, the cohesion policy at the moment that you are talking about is just a small part of the public expenditure in terms of investment for England and the other nations. What we believe is that the fact that we have a multi-annual budget is allowing, in many regions, people to make important projects with security. If the people, even the private investors, when they are confronted with an annual budget, which is the decision of the UK for every year, most of this big investment—let us say that—that should be more cautious. The other point is probably important too. Of course, the UK is in Europe and there are European policies. In some ways, this cohesion policy and this ERDF money is allowing better coherence between the national priorities and the European policies. When you look at the EU 2020 strategy, which exists clearly in the main objectives of, for instance, the UK, the UK objectives are also growth, jobs, sustainable development and inclusion.

**Q11 George Hollingbery:** Do you not accept that it is an odd system that takes £3.55 from the part of the country that has the lowest income per capita and pays back £1 into the same region? That seems to me to be an odd way of going about things.

**Peter Box:** Can I respond, perhaps in a slightly different way, in saying that the general point about being efficient and saving cash is well made. There is far too much bureaucracy; there is no doubt about that in terms of the funding. The EU talks about being better co-ordinated. The truth is that a lot of that, I’m afraid, is rhetoric.

I can give you one example of how local authorities are trying to work more efficiently. Lincolnshire county council had an ERDF officer, an EU officer and someone who dealt with rural development funding. Those three people were in offices next to each other, to try and make sure there was far greater efficiency, but because of the systems in Europe it was very difficult. There are different regulations for different funding streams. So I accept the point about greater savings being available through less bureaucracy.

**Q12 George Hollingbery:** Is there any way in which member states can opt out of this commitment, or mechanism?

**Peter Box:** My understanding is that the UK Government could agree with the next round, 2014–20, that there won’t be repatriation. That is my understanding.

**Dr Palma Andrés:** Concerning simplification, in the sense of value for money of course, for instance we had in the last couple of years a difficult time with the financial crisis. And this ERDF funding was very useful in different circumstances, because we could very quickly reprogramme and make the delivery of funding in a very simplified way, even increasing rates of assistance. These ERDF mechanisms adapt very quickly to the demands. So probably you have a point. It is something that we have to look at. The bureaucracy is sometimes not only eurocrat bureaucracy; it is national as well, and local. It sometimes complicates things, because we have to take the median or the average of the 27 bureaucracies and cultures, which are different from country to country. We believe that we can improve, and the proposals on the table at the moment in the Council go in that direction. The UK was very active in the Committees on simplification and reducing bureaucracy, and the proposals on proportionality—a better way of delivering the system and creating better conditions for the delivery of money for the final beneficiaries—are in that direction. I suppose that things can improve very well.

**Q13 George Hollingbery:** Would the two of you from local government leave it the same as it is now, or would you change it? Let me qualify that question slightly. If it could be delivered in such a way that it would also increase the budget, would you leave it the same, or would you go for the new system?

**Peter Box:** The bureaucracy must decrease, and make it easier for local government to work more easily in accessing the funding. At the moment, that is not the case, but the LGA supports—and certainly the individual local authorities that I spoke to support—ERDF, because it can play a big part not just in delivering specific projects, but we have learned to work in partnership very effectively with the private
sector over the past few years, and that will be accelerated through local enterprise partnerships. I know that there are authorities other than the big cities that are keen to get involved through partnership working with the private sector to deliver a better outcome. So, yes, the LGA supports the ERDF.

Q14 George Hollingbery: Can I ask you whether the Local Government Association is supportive of the funds it receives through the ERDF, or whether it is per se in favour of the ERDF? I think you will see what I mean by the difference. If the money could be produced elsewhere, is it the money that you are in favour of, or is it the particular mechanism by which it is distributed?

Peter Box: Local government is always interested in cash, and if you have any influence you can bring to bear on making sure we get more, that would be very helpful. Clearly, if someone gives a guarantee that that amount of funding would be available, but it seems to us that we must comment on what is before us, and what is before us we are supportive of.

Linda Edworthy: Likewise, the Chief Economic Development Officers’ Society is supportive of the ERDF from the perspective of a potential source of funding that can make a significant difference. There is a number of significant bureaucracies, and we can provide a whole host of examples where there is a need to change the way that it currently works to make it more efficient and more effective. In particular, local government has a lot of experience in explaining how that can be achieved. There are some areas where some local authorities, universities and particularly the private sector are not interested in pursuing European funds because of those bureaucracies.

Q15 James Morris: Talking of bureaucracy, the current Government abolished the regional development agencies quite early on in their term, and transferred responsibility to CLG for the distribution of funds and decision-making on funds. We have conflicting evidence about the impact of that decision. What do you think the impact has been? Has that decision improved the way in which ERDF money is allocated, or has it hampered it?

Linda Edworthy: I think the problem is that it varies across the country. When talking to our colleagues in some areas, such as Norfolk, East Riding and Derby, there has been a significant reduction in the level of staffing from the transfer from the RDAs across to CLG. There have been time delays in organising the changeover from the programme monitoring committees to the local management committees, which have delayed some decisions. Some areas feel that it has had a negative impact, whereas in other areas—for example, in the north-east of England—there has been no real change. Thirty-one staff transferred from the RDA to CLG, and in terms of the processes there has been no real change.

Q16 James Morris: There have been no delays as a result of this?

Linda Edworthy: There have not been delays. What I would say is that the processes that were previously in place were significantly onerous in terms of an emphasis that existed previously, and an emphasis that continues and is increasing in terms of an overall emphasis on compliance as opposed to bringing forward pipeline projects and getting the projects through the process.

Peter Box: We were genuinely supportive of transferring the day to day administration to DCLG when the RDAs were scrapped, but the transition did mean that some of the money that was supplied by the RDA through the single-pot funding was affected. We wrote round to our member authorities and something like 50% of them said that projects had been affected—either delayed, or they hadn’t taken place. One programme worth £1.5 million—in Preston, I believe—could not go ahead because match funding was not available. So it seems to us that Government need to look at this and ensure that there is devolution down to local government as quickly as possible.

Q17 James Morris: Sorry, when you say, “devolution down to local government”, do you mean that the Government should be looking at a new way of devolving through local enterprise partnerships, which you mentioned earlier?

Peter Box: Yes, I mentioned before about local economies being different. I think it is now accepted that a one-size-fits-all solution is not the way forward in terms of trying to make sure that local government plays its part in delivering growth. There have to be tailor-made schemes. We believe that that is best dealt with at the sub-national level.

Q18 James Morris: We had some evidence from west midlands councils—part of which I represent—saying that they felt some innovative projects had been not funded, or that there had been difficulties with them, as a result of the lack of flexibility in the new system. Is that something with which you would agree?

Peter Box: We are bothered about the future to make sure there is flexibility. We want to work in partnership, through the LEPs, with the private sector, so there is an opportunity for local government to help in the overall strategy of creating growth.

Linda Edworthy: To add to that, we have asked our members this question as well. Some areas think that it is perhaps not a very fair question to ask at this point in the programme, because obviously the reduction in single programme funds from RDAs means that inevitably there will be less innovative projects coming forward for consideration. Also, it depends on the definition of innovative. Innovative in one area may not be innovative nationally. Coming towards the end of the programme, there will inevitably be a focus on the delivering of outputs, which again tends to lead to projects that can be delivered quickly, and, maybe, perhaps less innovative schemes. But we have had some comments from Lincolnshire and Torbay. They have experienced the change having an impact in terms of less consideration of innovative schemes.

Dr Palma Andrés: From Brussels, we had in the very beginning a concern because of the match funding when the RDAs were dismissed. Then came an acute
moment when the payments for a lot of programmes in England were interrupted because of irregularities in some cases. What I have to say today is that the CLG has managed this period quite appropriately, overcoming the difficulties of interruption of payments. So, with no difficulty, there are no more payments interrupted, because of the mechanism when there are irregularities—

Peter Box: There were transitional problems.

Dr Palma Andrés: In our point of view, as from Brussels, in terms of macro, we think that the transition at Brussels was well managed by the CLG, besides the problem that exists with the RDAs. The figures for commitments and contracts compare with the other parts of the UK. For instance, for England you had a contract for 63%. In others, such as Wales and Scotland, it will be higher. Even the committed part of the problems are very high in England at the moment—93%. That means that there is a compromise in monitoring committees for such problems. We have the impression that there was no break—

Peter Box: May I comment? There was a problem with transaction which in our experience was mainly to do with match funding. The Government need to keep an eye on the 2014–20 programme to ensure that we do not lose any ERDF funding, which I do not think anybody would want.

Q19 Stephen Gilbert: Perhaps I can focus on how the money is spent, allocated and drawn down. I represent a Cornish constituency as you know, Cornwall has been on European life support for 12 years. It seems that every time we qualify for a new tranche of this European life support, a grand vision is given to people in Cornwall about how it will transform structural inequalities in the economy. There is then a huge delay, because the only tangible benefit from the programme—I think that is unfair, but one of the clear beneficiaries of the programme is a kind of officer class of project managers who take an inordinate amount of time to select the criteria for programmes to come forward. The scheme then runs into criticism because the public are frustrated with the delay in delivery, and there is a rush to get all the money out of the door at the end in an ill-considered way.

In fact, in terms of draw-down, Cornwall does quite well in comparison with the rest of the country. Does that typify what happens in other regions in the country? I am looking at the east midlands, which has contracted only 56% of its funding at the moment. What has it been doing for the last period of time? Why is it only halfway through its spend programme and yet very close to the deadline?

Peter Box: The LGA committee that I chair has been to Cornwall, so I know at first hand some of the particular problems that colleagues there are facing. The point about inefficiency and delay is well made. The LGA's position is that we should be as efficient and transparent as possible, and I agree with the general premise that it should be our wish to cut out any undue bureaucracy or delay. In my experience, local government has built up a real body of knowledge and expertise over the years—it would perhaps be surprising if we had not. In many cases, local government officers working with the private sector have been the reason that projects have happened, rather than the other way round.

We can give you examples from authorities up and down the country where we have worked closely with the private sector, not only to deal with the ERDF, but to draw down private sector investment that might not otherwise have been available.

Dr Palma Andrés: I have the impression that that is the reason for the Commission’s future proposals. The idea could be called e-cohesion. What does it mean? It means that everybody on the ground who is a potential beneficiary can register and make an application for a project. Then, by computer, they can follow all the steps and instructions in the dossier, and everyone can see because there is more transparency. Of course, it is up to the managing authorities to select, according to criteria that must be decided by the publisher—that is a very good thing. Our idea is to speed up the problem that we are talking about, and the delay that is caused by the dossier coming in paper form that everybody needs to look at.

We in the Commission think that if you go in that direction and put everything on a computer that is open to everybody, people will be able to look at it and the process will speed up. Everybody is more responsible for it and you can follow. If you are a private owner of a company, we have an application for a grant or whatever. You can follow it and make pressure. We believe that it is too much if a private project takes more than two or three months to make a decision. That is our opinion. Of course, sometimes there are difficulties for one reason or another, such as the dossier not being well prepared and so on, but that is not good for business. From our point of view, it has to be very quick.

Linda Edworthy: I think that Cornwall is in a very fortunate position, because the county council has been able to make a commitment in terms of officer support and match funding. I think it has made in the order of £29 million of capital funding available to replace the loss of RDA funds. Obviously, not every area is in a position to do that. I am not familiar with the details for the west Midlands as to whether it is a lack of match funding that has caused its problems, but most of the local management committees are looking at ensuring that they get the funds committed and spent. Cornwall is already ahead of its N Plus 2 targets. In the north-east, there is an open call for projects, but there are concerns that the timing of certain funds do not necessarily fit easily. What do we not want to do is just push all the money out the door now when some other match-funding opportunities might enable some creative projects to come along.

Q20 Stephen Gilbert: But doesn’t it suggest that in the seven regions of the country where contracted spend is still less than two thirds of available funds there is not the vision or joined-up governance in relation to how to deliver the kind of transformative projects that are necessary? We are a year away from the period ending and the north-west is just over two thirds, but the east midlands, the north-east, the south-east, the west midlands, the south-west, and Yorkshire
Q21 Stephen Gilbert: In which case, it would be helpful if we could get some updated figures, either from the Government or from other colleagues. I have two final questions. Despite more than £1 billion-worth of European aid over the past 12 years, Cornwall still falls as the only region going into convergence in the next period. Why is it failing? Why is it not delivering for Cornwall what it set out to do 12 years ago, and yet there will be another seven years of it?

Dr Palma Andrés: Before there was an overall region, but there was a split, which is why Cornwall has become a convergence region. I have the impression that they are converging anyway. According to the most recent figures, all the regions in Europe suffer from the crisis. Look at Spain. Nobody believed that Spain would have a crisis like this. They thought that the GDP per capita of some of the regions would just increase. Even in Germany or France, there was one region where it was up 75% of GDP per capita average, and now it is below—in just one year. We have the impression that there will be convergence in the longer term. In the UK, you have Cornwall on one side and Wales and the valleys on the other. You have a lot of transitional regions under the terminology of the Commission's proposals. We have 11 transitional regions, some of which were lagging behind before. There is probably the problem of extremity. If you want, we can give our evaluation in writing.

Q22 Stephen Gilbert: I would certainly welcome that. Don't get me wrong; I don't wish to suggest that no good work has happened. There have been plenty of projects that have helped to change the nature of the Cornish economy, but my concern is that in lots of these places—I think you said it yourself José, when you talked about the number of transitional regions—we are not talking about resuscitating economies and letting them catch up, we are talking about an emerging dependence among regions in the UK on structural funding from outside the UK just to keep them where they are. I think that is a significant issue. I have one final question, if I may. Let us say that by the end of the period the east midlands, which is one of the lowest performers here in terms of contracted spend, has not spent all its money. Is it technically possible to transfer that to regions that have projects that are oven ready, in the terminology?

Dr Palma Andrés: Before the end of this project?

Stephen Gilbert: Yes.

Dr Palma Andrés: You are running out for the moment, because we are in 2012 and the programming period is 2013. I am not sure that the other regions would be pleased.

Q23 Stephen Gilbert: Would it be technically possible, I guess is my precise question?

Dr Palma Andrés: This is a decision of the Governments. I can ask, but the problem is that we have to reorganise completely the other programmes, so it is a formal decision of the Commission and it is quite complicated.

Q24 Mark Pawsey: We have already heard references to match funding, and perhaps I could ask a few questions about that. Could I also apologise for needing to leave immediately once the questions are answered? The LGA did some work which shows that more than half of regions cannot spend all of their money because of the difficulty in getting hold of match funding: the 50% set by the EU going down to 25% in convergence regions. What is the future? We are not getting out as much as we are putting in and that which we are allocated we are not able to spend because we have the match funding problem. How do we solve that?

Peter Box: We have to understand that the sub-national landscape is changing. The point was made by a Committee member. RDAs have gone. We now have LEPs. Local government is working with LEPs right across the country both at city level and in areas like Cambridge, for example. I was talking to a colleague from Cambridge today who is anxious to work with other authorities and the private sector through LEPs. So we need to be positive about the new landscape and to make sure that we do things differently, because it means that local authorities are interacting with the private sector in a different way. We need to use that different way to make sure that as far as possible the funding is available. It will mean doing things differently, I guess, but I know from the work we have been doing since last October, as the LGA, the amount of work that local government is doing in terms of simply doing things—we have had a growth campaign. All the evidence shows that local authorities are up for the challenge of helping deliver growth. So we will do that through the new mechanisms that we have.

Q25 Mark Pawsey: Would the regional growth funds help here? Why have we been unsuccessful so far in using regional growth fund money to make up the match-funding element?

Linda Edworthy: Principally because it has not been a fund that has been aligned to the same activities. I think the principal aim of the regional growth fund has been to push money out directly to individual businesses for them to improve and grow their own individual business. That is not what the objectives of the European regional development fund are generally about.
Q26 Mark Pawsey: So how would you deal with this problem because there is European money going begging here? We are going to miss out if we are not careful.

Linda Edworthy: There are other funds that need to be aligned. One of the things that was said initially was that RGF should have been top-sliced and allocated as a match fund towards the European funds. There are other funds that can be looked at: the growing places fund—LEPs are now looking at that—and several areas will be matching up European funds with it. There is also the councils’ own funds in their discretionary budgets and I think we need to have a more constructive discussion/dialogue with CLG about the ability for local authority discretionary funding to be used as match.

Peter Box: I accept the point about regional growth. Two things, though: first, it’s new, so it’s only just got off the ground. The second point is that it’s called a regional growth fund, but decisions are taken nationally, so we need to make sure that the decisions with the regional growth fund are taken at the most appropriate level, whether that be at LEPs or city regions, to make sure that there is far greater alignment between ERDF spend and the regional growth fund. So that is one of the ways in which additional funding can be found. But I come back to the point that what local government has to do, and will do, is look at different ways of attracting that match funding.

Q27 Mark Pawsey: Dr Palma Andrés, is the UK unique in having this difficulty in finding the match funding and, if it isn’t, and if it is common across Europe, why is the match-funding element needed to be so strict? Could there not, in the present climate, be some concessions granted to enable the UK to benefit from the funds that are allocated.

Dr Palma Andrés: UK is not unique, because you have to leave for every year’s budget the allocations. There are difficulties of spending of different sorts, in particular with the new member states: some of them have difficulty spending the money and for different reasons, not only for match-funding problems. But you are absolutely right that, probably, things should be looked at close to the ground.

One of the reasons that the Commission proposed now, in this package—and apparently UK is not in favour—I do not understand why. We have proposed the ring-fencing of 5% for integrated actions for sustainable urban areas. We suppose that we are living in a moment where there is a concentration of populations in urban areas, more and more. In UK, there are lots of important cities and important areas. One of the aims of the policy is inclusion. Of course, going by the economic aspects of inclusion, then we think that more involvement of integrated urban plans should be one of the solutions, and we have asked that at least 5% of the ERDF for the future should be allocated to these kinds of activities.

We have had different conversations with some mayors—in particular, the Mayor of London, who was happy to listen to our proposals. Of course, it is not only London. There are other conurbations. There are five metropolises in France, for instance. There are others in Spain. The people are enthusiastic to use these, not for financing housing, but for financing everything which is connected with the life of the people, and, of course, with the economic growth of these towns in a sustainable way. So we say that UK is not different like others, but there are difficulties, as my colleagues say.

Q28 Simon Danczuk: Doctor, I liked your idea earlier of using computers to speed processes up. It seems like a logical thing to do, but I am astonished that it has not been done before. Why did the Commission interrupt the ERDF’s payments in 2010 and 2011? You made brief mention of it earlier, but could you just explain to us why you did that?

Dr Palma Andrés: The reasons were related to audit of our services and the Court of Auditors, which had detected irregularities. Most of the irregularities are, let’s say, formal irregularities—non-application of some eligibility rules—so there is no fraud in these issues, just irregularities. By the rules, we are obliged to withhold payments unless things are clear and clarified. Until things were clarified, there was an action plan for the different programmes that were interrupted—the payments were just delayed—and then it was lifted, because everything was going fine.

Q29 Simon Danczuk: Okay. And you are satisfied that everything is in place and controls are working, and everything like that.

Dr Palma Andrés: Yes.

Q30 Simon Danczuk: Peter, in terms of the Commission’s suspension of payments in 2010 and 2011, did that have any impact on projects at all that were funded through ERDF, that you are aware of?

Peter Box: I don’t have that information, but I can certainly find out. I can do a trawl from member authorities to find out the extent to which that was a problem—unless Linda knows.

Linda Edworthy: Some of our members have given us feedback. Some of the larger county councils have experienced minimal impact, because they are able to bankroll projects, but they have identified that the suspension is a particular issue for small organisations, particularly those in the voluntary and community sector. Even without the interruptions, they are looking at a year for the funds to come back into them, so the interruption adds to that period of delay in funding.

Lincolnshire has also fed back that the suspension has had a political impact, in that some of the elected members feel that it was giving a false impression that schemes would end up costing the authority more. It has caused some cash-flow problems and, obviously, loss of interest to the authority. Some authorities have had to use their reserves to fund activity as an interim measure, but overall, there has been minimal impact.

Q31 Simon Danczuk: My final question follows on from some of what Stephen has been saying. Does the surge in attempts to spend ERDF before the end of the process increase a risk of error, fraud or poor value for money? Is there a worry around that?
Dr Palma Andrés: Just to explain, the commitments at a European level are until 2013. At a national level, we can commit spending until, let’s say, two weeks before the end of 2015, theoretically, if you can spend them in 15 days. We have still until the end of 2015 to spend. This is the mechanism. May I come back to the other point? In relation to the impact of the interruption of the ERDF payments, we are in a co-financing system. For each programme, we give a cash advance. When there is demand for reimbursement, we pay everything that is claimed. We remake the funding—the advance payment. To avoid the problems of cash, in terms of European money, we have to give them much funding.

Linda Edworthy: Certainly in the north-east, claims were suspended during the period, so even if the money was there, it was not coming out.

Peter Box: I think the word you used was “surge”. From my experience, that has been an issue for both national Government and local government generally, if the truth be told. You tend to make sure that you have sufficient at the end, so there is a potential for schemes that are not as good as others to get through. That is why the LGA is arguing that we should have a greater role in appraisal. We need to be involved in making sure that what goes through is fit for purpose and will make a difference. We are quite happy to take on that role.

Q32 Chair: Final question to Linda Edworthy and Peter Box. Would you like the Commission to change ERDF in any way for the next round? Do you generally support the idea of the transitional regions—the middle category? Is that a good proposal?

Linda Edworthy: We support the proposal for transition regions. The bulk of our members’ views on changes would be around the processes, the regulations and the removal of bureaucracies in the process. I have a long list of activities in bureaucracies where our members would like to see changes, with evidence from particular areas of the country. I should be more than happy to put that in writing to the Committee, because it is probably too lengthy to go through today.

Q33 Chair: Yes, okay. Presumably, you will come back to the Commission as well, will you?

Linda Edworthy: Yes.

Chair: Okay. We will be happy to have a copy of that. Thank you.

Peter Box: I agree with Linda’s point about transition. What we need is less, not more, bureaucracy, to make things simpler, so that we can make a difference. I am slightly nervous when I hear that there are proposals to put some kind of performance management systems in place in the EU that will actually make things more bureaucratic and not less.

Q34 Chair: Finally, Dr Palma Andrés, thank you very much for coming to see us. To make sure that we get our money’s worth after your trip from Brussels, I’d like to go through just one or two issues. One of the concerns raised earlier was about different authorities in the UK having to deal with different strands of EU funding. Is there any chance we will be able to get those streams of EU funding brought more effectively together?

Dr Palma Andrés: In the UK?

Chair: Yes. So the EU can make them more compatible with each other, so they can be joined up.

Peter Box: I think you are talking about the EU, to be fair.

Q35 Chair: Yes. The different strands of funding from the EU—is there a way we can get them to be more joined up, rather than having completely different and separate approaches? That is one of the criticisms of the bureaucracy, I think.

Dr Palma Andrés: I don’t understand what you are saying. At the moment, we have lots of problems in England. I don’t quite understand your question. You seem to say that the funding should be mutualised.

Q36 Chair: More integrated—currently, you have several different projects often getting different bits of funding from Europe. Could we not get the funding to come in so that the councils, the city regions and the local enterprise partnerships at the local level can manage these different streams in a way that brings them together more effectively?

Dr Palma Andrés: In fact, it is up to the British Government to propose to the Commission how to do it.

Peter Box: With respect, it really is something that the Commission should be doing of its own volition. It should not need to be told to do it, because the message is constantly being made that there are difficulties with different funding streams. It is an issue that is causing delay. It actually means what you, Chair, were saying: that we cannot be as efficient as we could be if there was a greater synergy between different funding streams.

Dr Palma Andrés: You mean ERDF, social funds and so on?

Peter Box: There are different regulations in different systems.

Dr Palma Andrés: For the moment we have only two structural funds: the social fund, which is mostly for training and things like that; and the ERDF. The agri-fund and the fishing fund are not structural funds; they are not a big part of our policy for the moment, from 2007 to 2013.

For the future, what we are proposing in a partnership agreement, which we intend to make with the Government, is that all these funds will be together in the same strategy. The idea is to put more together. This is the Commission’s proposal. As far as I understood it, this approach was “approved” in the last General Affairs Council on 24 April in Luxembourg. The first round of negotiation on this particular aspect has been agreed by member states. The whole problem is how to put it into practice. That is the problem. A possibility for the future is that the Government propose integrated programs. From 2007 to 2013, that was not possible. Now, there is a proposal on the table to do it, but a condition of that is that it is up to the member state to decide whether it wishes to or not. That is the point.
I believe that Mr Box is right. For instance, when a company comes to an office and wants to make an investment and to train and re-qualify people, it should apply for just one time. We have to save the time of the final beneficiaries, in particular the business men. This is our opinion. We have to make all the efforts to do it.

Linda Edworthy: Unfortunately I am old enough to go back to when there was the very first Durham-Cleveland integrated development operations programme, which had integrated ERDF and ESF to sit alongside each other. Where there was a capital investment—say, in business infrastructure—you could then bring in the appropriate training to ensure that it met the needs of local residents and businesses that were going to locate in them. It was the UK Government who chose to separate the funds, not the European Commission. We would very much urge greater integration of European programmes, which should very much be delivered at a local economic area.

Q37 Chair: I should say that we are not getting just at the EU; we have exactly the same problem with funding streams from our own Government Departments, which do not always join up, and we have certainly concentrated on that in the past. Do we know yet what the likely value of the ERDF will be for 2014–20? Will the euro crisis and the problems in the EU economies have any impact on it?

Dr Palma Andrés: As you know, we are proposing a budget that is restricted. We are going to have as much funding as we have. We are proposing that the rates of assistance increase here and there, particularly in transitional regions, and that the eligibility criteria are larger. We are proposing thematic concentrations so funding is more generous in the transitional regions than in the competitive regions. With a stronger partnership at the local level, things can be better organised and better implemented—this is our opinion.

Chair: Thank you all for coming to give evidence to us and for the time you have spent here.
Wednesday 9 May 2012

Members present:
Mr Clive Betts (Chair)
Heidi Alexander
Bob Blackman
Simon Danczuk
Bill Esterson
David Heyes
James Morris
Mark Pawsey
Heather Wheeler

Examination of Witnesses

Witnesses: Professor Steve Fothergill, Centre for Regional Economic and Social Research, Sheffield Hallam University, and Mats Persson, Director, Open Europe, gave evidence.

Chair: Good afternoon. Welcome, both of you, to the second evidence session of the inquiry into the European Regional Development Fund—obviously the most important meeting in Parliament today. Thank you for coming and for the evidence you have provided so far. For the sake of our records, could you say who you are and what organisation you represent?

Professor Fothergill: I am Steve Fothergill, a professor at Sheffield Hallam University.

Mats Persson: Mats Persson, director of Open Europe.

Q38 Chair: Thank you very much.

This session will focus mainly on the issue of repatriation, as it is called, of ERDF funds from Brussels and the idea that we should not be in the position where money is transferred from this country to Brussels and then transferred back to be spent in the UK. Could you give us your views on that in general? Do you think that the ERDF has made a significant difference to development in this country and to regeneration of poorer areas? Would that have happened without the current arrangements?

Professor Fothergill: Measuring the impact of any regional policy initiative, whether it be from Europe or from our own Government, is a very difficult exercise because lots of things are happening simultaneously. There is not only the regional policy initiative, but national economic policy and underlying trends in location. Alongside European regional policy, we have the activity of our own UK Government on the regional development front. It really is very, very difficult to put your hand on your heart and say, “The impact of ERDF in Britain has been x or y,” because it is much more complex than that. I know from the work that I am sure Mats will comment on that the academic literature is very mixed in terms of how big the impact has been, but I have to say I rather suspect that a lot of that academic literature is barely worth the paper it’s written on, because the problem of disentangling a policy impact alongside everything else that is going on is so formidable.

Personally, I tend to come at this from a completely different angle and look at projects on the ground and ask, “Would this have happened on this scale in this place if we had not had the European funding?” I think the answer is overwhelmingly no. A lot of the big investment projects that have been co-financed from Europe would not have happened without the contribution of Europe, and I doubt very much whether we are looking at the public finance displacing private finance—I do not think we are in a situation where there is such a shortage of resources that you would get crowding out, as economists say. In broad terms, I certainly believe that the ERDF has made a very positive contribution. The issue at stake, I suppose, is just how big that positive contribution has been and whether you might have got a larger positive contribution if you had gone down other routes in terms of spending the money—if it had been our own Government that had spent the money itself: rather than routed the money through Europe. I am saying yes, it is basically positive, but with a number of important qualifications.

Mats Persson: I agree with Professor Fothergill that it is, of course, very difficult to nail down exactly what impact the ERDF and the structural funds in general have had on the UK economy, both overall and in individual cases. I agree that it is very difficult to identify a counterfactual—what would have happened absent the funding. It is extremely difficult to isolate ERDF funding streams from other factors in the economy; I agree with that as well. In addition, I want to stress that the models that are being used, in particular by the European Commission, to evaluate the impact of these funds are very poor. They suffer from a number of flaws, which I am happy to go into if anyone is interested in that. I therefore take the jobs figures and growth figures that are being generated from those models with a pinch of salt. It is also very difficult to quantify the opportunity cost. For every pound invested in a certain area of the economy, we have to take into account that the same pound could have been invested somewhere else and perhaps generated greater benefit. That is the opportunity cost and it is extremely difficult to quantify. That is a very important issue when it comes to the ERDF.

There is a number of reasons why it is very difficult to quantify and to evaluate the impact of the ERDF, but what we do know about the ERDF is the following. We know that the redistribution patterns, from a UK point of view, are not ideal. We know that every single region classified under the NUTS criteria in England apart from one—Cornwall—is a net contributor to the structural funds, so they lose out, in net terms, when they participate in the structural funds. We know that certain quite poor regions are doing particularly poorly out of the structural funds
and the ERDF. We have outlined and identified a number of individual areas and regions that do particularly poorly compared with what the wealth levels are—for example, we have highlighted the West Midlands, an area that contains urban pockets of poverty, which pays in £3.55 for every £1 that it gets back from the structural funds. We know that. That is quite easy to quantify. A number of other less well-off regions in England are doing equally poorly, despite being relatively poor in English terms. We know that.

We also know, if we do the simulations that Open Europe did in its report, that of the cash that does come back to these regions, most of the money was raised in that same region, so it is a genuine circulation of money. It is not even redistribution within Britain; it is redistribution among taxpayers in the same region. The question we must ask is this: although it is true that it is very difficult to quantify and evaluate the impact of the ERDF, what magic is happening in that £1 for every £3.55 that the West Midlands, for example, gets back? What happens in Brussels that makes its impact so extraordinary and enables us to say for certain that this funding has a positive impact that otherwise would not happen? The burden of proof is very much on the people who say that this has an additional impact to what would have happened otherwise, because the redistribution patterns of the ERDF are so irrational.

Professor Fothergill: Can I come in here on an important point that Mats is raising, which is why so many of our regions are net contributors? This is because as long as we have a Europe-wide regional policy that is aimed at supporting in large part the very poorest countries and regions of Europe, Britain is always going to be a net contributor to that. Indeed, the proposals that were tabled by the last Labour Government and the ideas floated by Open Europe are basically not intended to challenge Europe’s continuing to support the very poorest regions of central and eastern Europe, and as long as that occurs, we in Britain will be net contributors. That is not necessarily a bad thing because it might meet wider objectives in terms of supporting the growth of markets that we ultimately export to, never mind consolidating the sort of democracy and the market economy in central and eastern Europe.

Q39 Chair: Is not certainty one of the things the current arrangements give? Because of the problems of getting agreement in Europe, you tend to get programmes agreed for a long period of time—for seven years, you have that certainty for both the public and the private sector. We know that UK Governments of whatever complexion can change their policies overnight, so that certainty is not there because the policy changes and the funding is removed.

Professor Fothergill: The certainty is certainly valued a great deal by users out there in the regions, absolutely. It is one of the strengths of European funding from a user’s point of view.

Mats Persson: Certainly that is a perceived advantage in the regions and I can sympathise with that. Of course, if you sit in a region and you know that you have funding locked in for seven years, if you are a council, that is a nice feeling, particularly in these uncertain times, but that in itself is not an argument for continuing with this funding stream. It is merely saying something about the mechanics of the funding; it does not actually say anything about the policy output. Against that certainty, of course, we have to weigh the disadvantages of having funding locked in for seven years, and if the eurozone crisis has taught us anything, it is that the economic climate in Europe can change overnight.

Q40 Mark Pawsey: Professor Fothergill, you talked about looking at this scheme on the basis of projects that have taken place on the ground, and you referred to a number of projects that would not have happened without this EU funding. I wonder if, so that we could better understand the benefits of the scheme, you could tell us some of the projects that you have in mind—give just a handful of examples—and explain why you are certain that, of course, we have to have continuing with this funding stream. It is merely saying something about the mechanics of the funding; it does not actually say anything about the policy output. Against that certainty, of course, we have to weigh the disadvantages of having funding locked in for seven years, and if the eurozone crisis has taught us anything, it is that the economic climate in Europe can change overnight.

Q41 James Morris: Is there not an apparent contradiction in what you say? On the one hand you point to projects that have been funded by ERDF, which you say intuitively you believe have benefited, but at the same time you say, “Actually, it’s impossible for us to quantify the benefit.” Which is it? Is it impossible to quantify the benefit, so we just say instinctively that we think it is a good idea that these projects have been built, or is it possible to properly quantify the impact of the ERDF?

Professor Fothergill: It is probably not possible accurately and reliably to quantify the impact of the ERDF, because the question we always face is, “What would have happened in its absence?” Often, something might have happened on a lesser scale or perhaps in a different form or location, but we can never be quite sure. If we looked at the issue in terms of the overall aggregate numbers—GDP or employment in a region—you would expect European funding to have some impact, but there are so many other things having an impact.
simultaneously, so disentangling what is attributable to Europe and what is attributable to central Government policy—

Q42. James Morris: So we don’t really know. **Professor Fothergill:** The truth is that we don’t really reliably know, despite the mountain of reports. I don’t think we do know.

Q43 David Heyes: I guess from what you have said so far that it depends whether you take a national or an international perspective. From the international point of view, if the main purpose of the ERDF is to reduce regional disparities, why should regions with GDP per capita greater than the EU average get any ERDF funding? **Mats Persson:** I do not think they should. If it is a genuine cross-border scheme designed to help poorer regions catch up with richer ones in Europe, there is absolutely no economic rationale for richer regions or richer countries to receive funding. As I said, it is difficult to quantify the exact impact, but what we can quantify, as I have demonstrated, are the redistribution flows, which just do not make sense. It is very difficult to argue that point, and we still have not had anyone undermine us on what are clearly irrational redistribution patterns, which are economically quantifiable.

I do not think that there is a case for it, but there is a case for subsidising and helping out genuinely poor regions around Europe that are in a transition phase, where these funds can have the greatest comparative impact and you can gear them towards the economic transition that, for example, a lot of the post-communist European member states are still going through. That is where they can have an impact. They cannot have that kind of impact in Britain because we are in a different state of economic development. They cannot have that kind of impact even in the eurozone periphery, where this is the wrong type of funding. For heaven’s sake, 28% of structural funds in Spain still go towards infrastructure—the exact opposite of what that country needs. These funds are not fit for purpose to have the impact in richer member states that we want public investment to have at the moment. I think the evidence is there.

**Professor Fothergill:** I have to disagree a bit with Mats there.

**Chair:** That’s a surprise.

**Professor Fothergill:** Often, even in some of the more moderately prosperous UK regions, for example, there is still the need for investment in basic infrastructure to open up development sites and so on, but to go back to your core point—

**Mats Persson:** Why via Brussels? That is the question.

**Professor Fothergill:** Yes, and I am not arguing about where the money comes from; I am talking about the need for the investment. To come back to your general point: why do the very richest regions need European funding? Actually, the very richest regions get very little European funding. Across the EU as a whole, the vast majority of funding does go to the poorest regions, and even within the UK the funding is heavily skewed to the poorest regions. That is surely absolutely correct, because it is those regions that you are trying to bring on. Even within the so-called competitiveness and employment strand regions, which account for the vast majority of Britain, three times as much on a per capita basis still goes to somewhere such as north-east England as opposed to south-east England, and that is surely correct in terms of promoting regional convergence.

Q44 David Heyes: Some £200 million goes to inner London, the richest region in Europe. **Professor Fothergill:** I think that on a per capita basis, it is far lower than for say, north-east or north-west England.

Q45 David Heyes: Given what you have said about the difficulties of disentangling the impact of these initiatives, is it possible to give any indication of how much England, as opposed to the UK, could save if only the poorer EU regions received funding through the ERDF and the ESF? Is it possible for you to give a feel for what the impact of that would be? **Mats Persson:** Yes, I think it is. I think that we have done a very good job at Open Europe. Obviously I am slightly biased, but I think that we have done a good job of quantifying the potential savings from devolving the funds to the UK level. Now, any saving that has been achieved for the UK as a whole, I suspect—we need to go back and do the figures on this—could well be higher for England in proportional terms, because England does worse proportionally than the UK as a whole, particularly from the ERDF. However, we have calculated that the net saving for the UK as a whole, which gives you an indication of what the saving is for England as well, would be around £4 billion if our policy had been applied to the current multi-annual financial framework. I know that there has been some dispute over the figures, but I hope we have agreed that our figures do stand up to scrutiny, because we have taken the rebate into account, and I will clarify that and send around a separate note.

However, it is quite clear that in addition to the funding—about £8.7 billion for this MFF that is routed via Brussels and then comes back to the UK regions, which is not a net saving, but an amount that the UK could do whatever it wanted with and hopefully spend on very targeted, solid, effective regional programmes—you would also have £4 billion that would be a net saving, with which you could, if you were the UK, also spend on targeted, effective regional funding or urban development schemes. It is a win-win.

**Professor Fothergill:** Can I put my spin on this, please? There are really two sources of financial saving. One is if we no longer contribute money to Brussels, which then comes back to us, we have that money to spend ourselves as opposed to Brussels spending it. Now, under the sort of proposals that Open Europe has talked about and indeed the Labour Government were talking about, that money would not be a saving; it would be simply reallocated to the regions to do the same sorts of things or better things. Over and above that, Open Europe calculates that there is a saving that is a net financial gain to the
UK. That financial gain arises because we, as Britons, would no longer be subsidising development in other richer member states. However, there is a flip side to that, which is that some of those other richer member states would lose out massively financially. According to Open Europe’s figures, the big losers are Spain, Italy and Greece. I must say that I cannot see those countries willingly giving up that big financial allocation, especially in the present circumstances, without something financial and different in return. The more that we have to give to those countries to buy them off, the less the benefit to the United Kingdom. It is by no means an absolutely rock solid financial gain for the UK.

Mats Persson: Can I jump in there?

Chair: Of course.

Mats Persson: I would answer that question slightly differently, but I do really appreciate your excellent and tremendous job in explaining our figures and also acknowledging that our net saving stands up to scrutiny.

It is of course true that if you go to Madrid, Athens or Rome, they will not embrace you with open arms if you put forward this proposal—particularly not now—but that’s politics. So often when we discuss the EU budget, we tend to mix the ideal policy outcome with politics. It happens all the time. We deal with it all the time. It is true of civil servants. It is true of, with respect, MPs. It is sometimes true of academics as well, but not always. I agree, however, that it is a very good point that this would be difficult to achieve politically, and that is something that we need to take into account, but that is a separate point to the policy outcome. If we acknowledge that the policy outcome is the right one—that richer member states should run their own regional policy—then we deal with the politics.

On the politics, it is true that Spain, Italy and Greece will lose out massively under our proposal, but it is also true, first, that they would lose out anyway. They stand to gain the least or to lose the most ahead of the next MFF because of enlargement. Madrid knows this. The UK is particularly bad because, as you know, particularly when it comes to pockets of poverty in the UK, that is quite clear when we see the way in which disparities in wealth can come down to a block of Mezzogiorno. Greece does not need more performance de-linked subsidies sent to the Mezzogiorno. Greece does not need funds that require co-financing because it does not have the cash to put up that co-financing. Such funds are pro-cyclical for Greece in that sense. This is the wrong type of cash. This would be an ideal opportunity to take a step back and say, “Okay, we appreciate that you may not be able to lose that amount of cash, but can we now refocus these structural funds, or other types of funds, more around your specific needs?” Greece is one of the biggest net beneficiaries of structural funds, and it still needs a bail-out. Obviously, something is not working, but I am an optimist and I think it is an opportunity.

Professor Fothergill: I would like to add one further thing about the figures. The figure of rather more than £4 billion that Mats is referring to is, in a sense, a retrospective calculation of what would have been the net saving to the UK in the present spending round had we had the particular arrangements that he is advocating, and that the previous Labour Government were advocating. Looking ahead, there is nothing absolutely certain about a sum of that magnitude because it depends on a whole host of decisions about how big the overall budget for the structural funds is, and how much is allocated between particular strands of those funds. It also depends on GDP figures in the UK and in other regions. Rather than being £4 billion, if the figure were recalculated for 2014 to 2020, it could be zero or a great deal more. It could even, in extreme circumstances, be negative, so I don’t think that we should regard that net financial gain as something that is highly tangible and waiting to be grabbed. It is not as fixed as that.

Q46 James Morris: Going back to England, I might be misunderstanding it, but are you arguing that ERDF funding could potentially be exacerbating regional inequality in the UK?

Mats Persson: Again, I do not want to be too speculative because that is another claim that would be extremely difficult to prove. Going back to the flexibility versus stability trade-off that the ERDF represents and offers UK regions, we know that the allocation criteria for the regions are very flexible. There is NUTS on one hand, and when it comes to economic issues—

Q47 James Morris: Is that what you mean by irrational distribution?

Mats Persson: Yes, that is part of it. Absolutely, we produced this, for example, showing that if you switch from GDP per capita—or GVA per capita, which is basically what is being used now—and use disposable income instead, the wealth levels of various regions in the UK change radically. For example, I mentioned the west Midlands, which obviously includes Birmingham. It is clearly in need of some urban investment, but it is losing out massively and all of a sudden looks a lot poorer than under the current allocation. The same thing goes for Greater Manchester, which becomes a lot poorer. West Yorkshire, which includes Leeds and Bradford, is in need of urban investment and it looks a lot poorer as well. Because the EU’s allocation criteria require a one-size-fits-all measurement that will apply to all 27 member states, the system fails to target pockets of poverty in the UK. That is quite clear when we see the shifts in wealth levels between regions if we mess around a bit with the economic criteria. In that sense, the areas that need funding the most may not get it, particularly when it comes to pockets of poverty within larger regions.

The UK is particularly bad because, as you know, disparities in wealth can come down to a block of council estates. You don’t necessarily have the same system in Europe; Britain is something different.

Professor Fothergill: Yes, but economies do not operate at that local scale. If you are trying to revive an economy, you often need to undertake action over quite a broad sub-region. You can benefit people on a
poor council estate by doing something four or five miles down the road, or sometimes even more. There is an issue about whether or not the statistical indicators are appropriate, but in so far as the Commission needs to be consistent across Europe, it is probably working with the only data with which it can reliably work—GDP data at NUTS 2 scale. Anything other than that runs into all sorts of statistical difficulties. Even the household income-per-head data, which Mats is referring to, is horribly influenced by things such as local commuting patterns, and where poor people live versus middle class commuters, etc., etc. Whatever indicator you choose, you will have some difficulty. Broadly speaking, the indicators that the Commission uses succeed in targeting those places, albeit imperfectly.

**Mats Persson:** Can I—

**Chair:** We are going to move on. I am sure you will get your points in.

**Q48 Simon Danczuk:** I was going to make a point there, but I am not sure whether you need us at all. Steve, you were talking about the people who live on this council estate. Do you agree that if they knew anything at all about ERDF, they would think it was absolute madness that we as a country give money to Europe and then get a bit of it back as opposed to more of it?

**Professor Fothergill:** We will always get only a small part of it back for as long as we are committed, perhaps for very good political reasons, to supporting development in central and eastern Europe. If we do not want to support the poorest regions of Europe, fair enough, and we would save a lot of money. Yes, I suppose they would question whether it makes sense for money that is spent in that poor area to be routed to that poor area via Whitehall and Brussels.

**Q49 Simon Danczuk:** They would think it madness, wouldn’t they?

**Professor Fothergill:** Yes, but the big question then would be that if it was not routed in that way, would the money arrive? In the current climate of public expenditure constraints, the big question mark is whether any money saved by not being routed through Brussels would actually end up being spent on regional development in the poorer places of the United Kingdom. I have to say that that is a very big question mark indeed.

**Q50 Simon Danczuk:** That leads to my question to Mats, which is why would regional funding be more effective in England if it was repatriated from the EU? What evidence do you have that it would be more effective if it were done in that way?

**Mats Persson:** Again, I do not have the gift of prophecy, unfortunately, so it is difficult to know exactly what a future Government could do. That is obviously the problem with the proposal. At the same time, I can again point out what we know. For example, linked to our earlier discussion, we know that we could have economic and statistical criteria that are far more tailored around circumstances in England. At least you would have a chance to create a basket of indicators that can target pockets of poverty, or urban development in a far more effective way than now. That is tailoring of the funds. They will not come with a can of strings attached as we see at the moment. For example, Cornwall could spend its cash on the food niche industry, which it cannot do at the moment. That is clearly an area where there are demand and economic opportunities in that region, but at the moment it cannot spend on that. It would give us much more flexibility to spend on the kind of areas and sectors in the economy that could really generate growth and jobs.

Thirdly, it is a likely net saving. The proposed MFF in 2014–20 gives us a rough indication of the structure of the EU budget, and it is fairly obvious that it would look roughly the same as now, with more cash going to new member states, so if our proposed policy was implemented on that proposal, there would clearly be a net saving for Britain—more cash. All the different factors add up in combination.

**Q51 Simon Danczuk:** I am conscious of the time, Mats.

**Mats Persson:** Sorry.

**Q52 Simon Danczuk:** You have not been asked to prophesy. History tells us, does it not, that Governments of any persuasion will adjust how the money is redistributed? Since I have been an MP, more money has come out of Rochdale and moved to other areas down south or wherever. Political parties do that all the time. History tells us that.

**Mats Persson:** That is a fair point, but in the end that comes down to decisions also here in Parliament. Surely we must be able to trust MPs to make the right decisions for their constituents, whom they represent. If there is a strong case for more effective, targeted funding streams going to regions and urban development, I have all confidence in you to vote for that, because you hold the Government to account. At the end of the day it comes down to that democratic discussion.

**Q53 Simon Danczuk:** Steve, when you come in, will you also tell me whether you think that seven years is too long for setting an area’s priorities?

**Professor Fothergill:** Actually, no. Many of the problems we are dealing with in some of the less prosperous regions are deep-seated, and will take decades to turn round. We have been working hard on turning round some of these problems for some decades already, and we have made some progress. Three-year or five-year periods do not bring any advantage; a seven-year period brings stability. On the point about trusting MPs and the value of commitments to the regions, the last Labour Government wanted to see the repatriation of European funding. They did not win enough support in Europe to secure that, but it was offering guarantees that the money saved—the money that wasn’t handed over to Europe—would be handed back to the regions to be spent on regional development in England. You have to ask what that guarantee would have been worth in the wake of the 2010 election. Would the coalition have necessarily accepted that they were going to honour a promise made by their predecessors.
five years earlier, especially in the context of the extremely tight constraints on public expenditure that we all now face? Surely the outcome would have been that they had to discard that promise, and the funds to the regions would have been reduced accordingly.

Q54 Simon Danczuk: Briefly, if we do repatriate the funds, what would happen in Northern Ireland, Scotland and Wales? Do they get to opt in or opt out?

Mats Persson: They could get roughly the same amount as now. I appreciate that there are difficulties with obliging them to spend the cash in a certain way, but that is the nature of devolution. I think it would actually work a lot better for them, as well. Look at Wales, for example: I think they would do a lot better if they had more control of their regional spend.

Q55 Bob Blackman: Obviously, the debate is now centring on what happens from 2014 onward. I want to ask you some specific questions about your view of some of the areas that have been arrived at in the negotiations. The first, obviously, is the issue of three bands, rather than two, for the allocation of funds, under which certain regions of England might do rather better. Professor Fothergill, do you have a view on that?

Professor Fothergill: I think that is a positive step forward, and I know that, out in the regions of England, it is also viewed as a positive step forward. The problem is that in the present spending round there has been little formal differentiation between regions that are just above the magic threshold of 75% of the EU average GDP: those at 78% have been treated the same as those at 135%. If you go back further in time, we had an intermediate category called objective 2. I think there were many people out in the less prosperous regions of England who regretted the passing of objective 2. The Commission’s proposal is essentially objective 2 under a different name—they are now transition regions. We have done some calculations to try to establish whether the UK would be a net winner or a net loser from this proposal, and it looks very much as if we might get at least as much back as we would have to put in to support the transition.

Q56 Bob Blackman: So, broadly, you support the idea?

Professor Fothergill: Broadly, yes.

Mats Persson: I agree that the 75% threshold becomes a very big difference between a region that is just above and one that is just below, but I think that, in effect, this proposal entrenches the problems that we have already with the recycling of money between some of the richer member states. Most of the regions that are in this category will be located in richer member states so, unfortunately, the net effect will be a step backwards or will at least lock in the status quo, which we are not happy with. I would not support it.

Q57 Bob Blackman: How about the position of bringing together the various funding streams as one big pot? Do you agree with that proposal?

Mats Persson: I think that is a good idea in principle, but I am not sure that it is exactly what is happening in practice. I think that would be far better. If you actually want to have this funding at the EU level, notwithstanding how economically rational it is for the richer member states, I would have a single pot of money with a single objective, or at least one or two objectives. I would simplify it and make it much easier for people to understand what the funds are meant to achieve. So I support the idea of a single pot of money.

Professor Fothergill: Pooling the EU money is basically a good idea, but it is not addressing the central problem at the moment. The central problem is the shortage of matching finance to put alongside the EU money, because public spending is so thin on the ground at the moment, and we have had the abolition of the RDAs in England, and they provided the biggest share of the matching finance. Looking ahead, there is a serious problem to be addressed. How do you find that matching finance so that you can draw down the European money?

Q58 Bob Blackman: The European budget is going to be an interesting issue anyway, but that is a separate matter. One suggestion is conditionality; that is, you have to conform to the economic and fiscal requirements of the EU before you get any funding. Do you support that proposal? Mats, you’re nodding, so I can understand you.

Mats Persson: Absolutely. I think the more conditionality the better.

Q59 Bob Blackman: Steve, what is your view?

Professor Fothergill: Would that mean that Greece had its regional development money withdrawn, because it did not meet its particular strings on its bail-out?

Q60 Bob Blackman: I sincerely hope so. Either you sign up to austerity measures to keep yourself in the euro or you don’t.

Mats Persson: Of course it would.

Q61 Bob Blackman: You give me your view.

Professor Fothergill: I don’t think I have a fixed view; I think I have worries about whether a system like that would be workable in practice across the EU. I also have concerns as to whether or not you could hold back money until a member state had been shown to perform well, in terms of the way it was using the ERDF funds. The basic problem, as we were saying earlier, is that it is hard to measure reliably whether the ERDF funds are being spent effectively. You can tell whether they are being spent legally and I suppose you would wish to punish any country that did not spend them legally. Whether they are spending it effectively is a complex issue.

Q62 Bob Blackman: Taking my colleagues’ view from, shall we say, a housing estate in Harrow, people might be saying, “Hang on, wait a minute. We are going to spend all this money on developing Greece, but we don’t know whether it is effective or not; we don’t know whether it is doing any good or not. But
let's just keep spending it, because after all, that is what we are there for.”

Professor Fothergill: No, we are saying that quantifying the impact is inherently difficult. That is the problem. I definitely give this a positive impact, but quite how big is not easy always to tell.

Q63 Bob Blackman: Isn’t the fundamental issue here, not whether it is repatriation or who takes it, it is who takes the decisions, and then who gets the glory for the project that happens? Every project has to have the EU flag on it—that it is all done by the EU—when in actual fact it is just British money being recycled. What is your view on that?

Mats Persson: I would reverse it as well. I would say the issue is who gets the blame, for lack of a better word, when the funding is not working. At the moment it is falling into a big black hole between member states and the European Commission. That is not a good situation from the point of view of accountability and making sure that taxpayers’ cash is spent in the most effective way. There is a certain level of that in the structure funds, but that doesn’t make for good economic policy. I must say that it is a bit worrying to hear this idea that you can give somebody cash with almost no performance links whatsoever. That goes against everything that Europe is working to achieve at the moment. The problem has existed for so long in Europe: if you look at the Mezzogiorno, or if you look at Greece, for example, when it comes to the structure funds. Clearly, if we had had performance criteria and links, Greece might not have been in as bad a shape as it is at the moment.

The structure funds could have helped it to avoid the kind of situation that it is in at the moment. I think performance links are vital.

Professor Fothergill: Can I make it absolutely clear what I am saying? I am not saying to you, “Don’t have any sort of performance links.” There are certain things you can measure very reliably, such as whether the money is actually being spent. That can be an issue. You don’t necessarily want to be allocating more money if there is an absorption problem. I am talking about measuring in a reliable way the economic impact, trying to put output figures or employment figures on the impact of spending, especially in circumstances where there may be quite significant lags in the system.

If you are putting in infrastructure, it may not feed through for five, 10, 15 years, to much higher economic activity in that location, because you are creating the basic conditions under which economic growth can happen. It is highly problematic to attach very rigorous criteria to determine whether you should keep on getting the money.

Mats Persson: You can measure a road being built. You can measure whether wind farms are being built. All these things are measurable. That, again going back to southern Italy, is not happening there. Yet the money keeps on flowing in that direction. I know this is about England, but it just illustrates a wider point. It is clearly possible to have some sort of performance criteria and make that determine continuous funding. I think it is fully possible.

Q64 Bob Blackman: One final issue: there is obviously a lot of debate going on about the EU budget at the moment with suggestions from the Commission of a 6.2% increase. Indeed one of the problems the Commission has identified is that a lot of the decisions that have been repeatedly put off lead to a higher budget in later years. Is there not a risk, with the discussions going on about the EU budget, that this sort of funding is the easiest to remove when actually these funding streams may not come through at all in years to come? Do you have a view on that?

Professor Fothergill: I would be immensely surprised if the Commission’s proposals for ERDF in the next spending round were to survive intact. The experience of the negotiations leading up to the 2007–13 spending round was that the Commission asked for substantially more than it eventually secured. So I would expect the budget to be reduced by the member states. You may, in the end, be looking at a no-growth budget or even a reduction. Who knows? This is a political game that we are entering into.

Mats Persson: I think the budget will probably be lower than what we are looking at at the moment. How that will affect the individual funding streams is subject to negotiations. But I have noted that France and the UK agree on a budget freeze but totally disagree on what should be frozen inside the budget. It would be no surprise to hear that one country is not in favour of reducing CAP spending, so I suspect that the reduction will have to come from somewhere else and the structure funds may be a contender.

Q65 Heidi Alexander: You started to answer my question in response to one of Bob’s questions. You were talking about the problems in quantifying the impact of ERDF spending. We then touched on whether it was the right sort of spending. Are extra roads for Spain right? But, in terms of the bigger picture of economic development of Europe as a whole, there is the point that you made, Mats, about stimulating markets, potentially increasing wealth in other parts of Europe, which ultimately could be an export market for items for the UK. At that broader economic level—I am not an economist and I always get very lost when people start talking about this—what research has been done about the wider impact? I am not talking about jobs created in town or city X as a result of project Y happening, funded through the ERDF, but it is that bigger picture. It is the bigger picture that might be hard to explain when you are stood on the council estate in Rochdale or Harrow. What is your take on that?

Professor Fothergill: The Commission does try to provide that bigger picture in its various evaluations. It publishes what it calls cohesion reports every three or four years. They are voluminous documents, reviewing the whole picture across Europe. You come back to the point I was making earlier. You can observe the progress, or lack of progress, that may be being made in some of the poorest member states, but saying how much of that is attributable to ERDF is difficult and then working through what the impact of that growth has been on other member states is even more difficult. It is almost an act of faith that if we have a growing market in Hungary, Latvia or Poland
it must be good for the United Kingdom. We sell to these places. So one would assume, trite as it may be as an observation, that it is a correct observation.

**Mats Persson:** It is a very good question. Generally speaking, particularly in the EU15—the older member states—I think the structural funds are too small a share of overall GDP to have a measurable macro-economic impact. That is the reality. It is very difficult to point to a boost in overall EU-wide GDP. The Commission tries, but as I pointed out earlier, its models are not particularly sound—they are quite weak.

In our report, we have a section on how difficult it is to evaluate the overall impact of the funds. To give an example, the Commission itself mentions its so-called QUEST models, which it uses a lot to evaluate this, and I quote from its impact study of the structural funds: "It should also be stressed that these results are based on a macro-economic analysis and depend crucially on the underlying assumption that the money is spent efficiently." In other words, it assumes that money is spent efficiently, which is the same thing that it is trying to prove. That goes to show how incredibly difficult it is to evaluate. It is difficult to explain on the doorstep, because no one has shown that there is an overall macro-economic impact of structural funds. When it comes to newer member states, that is when the time lag kicks in, because it takes a bit of time to evaluate the specific impact of the pre-accession funding and the general process that took place when those countries adjusted to EU membership and single-market access. It is difficult to assess the impact on new member states, but we know intuitively that there is an overall macro-economic impact of structural funds. When it comes to newer member states, that is when the time lag kicks in, because it takes a bit of time to evaluate the specific impact of the pre-accession funding and the general process that took place when those countries adjusted to EU membership and single-market access. It is difficult to assess the impact on new member states, but we know intuitively that there is an overall macro-economic impact of structural funds.

**Professor Fothergill:** Yes, but in the UK, for example, we have had at least 20 years’ worth of really rather substantial funding from Europe. That funding has been skewed to particular places—to the poorer areas. It is simple to answer the question: are those places better off as a result of the layers of investment? The answer is definitely yes. You could point to places in which successive layers of European money have brought in successive layers of central Government money. What was investment in, perhaps, roads, and opening up sites and clearing derelict land 15 or 20 years ago is now feeding through to real jobs on the ground. There is a positive impact, but it takes time.

**Q66 Chair:** One final question. We said that if repatriation happened there might be a lack of guarantees—that Government might simply say, ‘Well that’s a nice contribution towards the deficit,’ and it would all go on some other purpose. In a country like the UK, would it not be possible for money to remain here? As part of the agreement, the UK could guarantee that it would allocate a certain amount of money for regional funds and would use them to reduce disparities in a particular UK way, and would guarantee that money for seven years? Could you not take that approach?

**Professor Fothergill:** The seven-year period is out of kilter with UK public spending rounds, of course. I have always understood that the present Government or their predecessors—

**Q67 Chair:** But the new deal for communities was done on that basis, along with the spending rounds.

**Professor Fothergill:** That involved much smaller sums of money; with the European structural funds, we are talking about over £1 billion a year. I am not aware that the Treasury embraces the idea of committing money beyond 2015. You cannot be bombproof in terms of changes in political power. What is a commitment made by one Government worth if a new Government take office, especially if they do so in different financial circumstances, as was the case in 2010?

**Mats Persson:** Yes. That’s the short answer. It is fully possible and desirable. I have faith in this place. I have faith in Parliament, because the Treasury cannot go round and not spend or spend money; it has to have approval by you guys, ultimately, and that is a comforting thought. It is fully possible because the politics, economics and everything else speaks so much in favour of that kind of solution. It is a political and economic open goal.

**Q68 Chair:** Thank you both very much for coming and giving us your views, and for the entertainment you provided this afternoon. It was very interesting.

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**Examination of Witness**

**Witness:** Baroness Hanham CBE, Parliamentary Under-Secretary of State, Department for Communities and Local Government, gave evidence.

**Q69 Chair:** Minister, you are most welcome back to the Committee’s inquiry into ERDF funding. We have already received evidence about it and there has been a degree of a difference of views. Can I begin by asking you whether the ERDF has really been an important source of funding to promote regional and economic growth, and remove disparities between different parts of the country? If you think that it has, is there any evidence to support that or is it just the general feeling that that is what has happened?

**Baroness Hanham:** I think that there is good evidence. If you look at some of the projects that the ERDF has funded, they are not the sort of projects that will necessarily receive national funding. They are very much start-up companies; they are support for new businesses, for fledgling entrepreneurs and sometimes for bigger regeneration projects that might not get funded.

ERDF funding does a very good job, and we would miss it very much if we did not have it. It is one of those funds that is local. The projects come from the
local areas. You say that there is disparity. Of course, as part of the ERDF funding, it has to be given to the less well-off areas, so some areas, like the south-east, will get very little because they are not considered to be regions with too many problems, whereas Yorkshire and Humber, the north-east and the north-west will be receiving quite a lot.

Q70 Chair: We will come back eventually to the difference between regions but, according to your own Department’s figures, we are told £1 billion spent and 9,000 jobs created. That is £113,000 per job, which sounds rather expensive.

Baroness Hanham: I think that we are talking about 2007–13 programme. It is very important to understand that we are only halfway through that, and that projects can be put forward till the end of 2014. Our experience with the previous 2000–06 programme is that often the projects do not actually come into fruition till near the end. I think that we already have about 33,000 to 34,000 jobs and new businesses, and we expect that figure to go up very substantially.

Q71 Chair: So these figures are just about completed projects rather than about what we expect to see at the end of the programme.

Baroness Hanham: They are not what we expect to see. They are where we are at the moment. People have to get the programmes developed, sorted out and then get them going. When you look at some of the projects, you have to get young entrepreneurs with ideas who have to be supported to get on and then expand their jobs. There is a bit of a time scale.

Q72 Chair: But on the other side, I suppose the criticism might be that a region like Cornwall appear always to get the most ERDF funding that you can give it. It is always top of the tree in terms of any system of allocations. But it is still there the next time that we look at ERDF funding. It is still just as much in need as it was before.

Baroness Hanham: Cornwall is not straightforward ERDF. It is one of the convergence areas, which means that it is considered by Europe to be very much below the line. Yes, you may go through one programme and still not have achieved it all, but it has got a lot of work to be done in Cornwall so I am not surprised that it is carried through. The convergence funding is more focused than the ERDF.

Q73 Chair: But the fact is that it does not ever seem to get out of the bottom category. Is that a failure of the ERDF? Could we hope that, at some point, Cornwall will be pulled out nearer to the national average?

Baroness Hanham: No, I would expect and hope that Cornwall will be pulled up to the national average in due course and will not need convergence funding.

Q74 Mark Pawsey: Baroness Hanham, we accept that the purpose of the allocation of these EU funds is to help poorer regions catch up with richer ones, and you have just said that the south-east would get very little, but in the period of 2007–13, £200 million has been allocated to London. How would you justify that to residents of poorer regions?

Baroness Hanham: There are poorer regions in the south-east, and London has quite a number of poorer regions—if you go down the Thames, places like Hackney, Newham and Lewisham have pockets of deprivation. They have quite considerable pockets of unemployment and they are receiving funds to help them pull it up. I have to say that the London programme, of course, is managed by the Mayor and not the Department. So largely, whatever programme is put forward is run by and dealt with by the Mayor.

Q75 Mark Pawsey: But the programme is based on the GDP within regions, and the regional figure in London and the south-east is high. It is hard to look residents of poorer European and British regions in the eye and say, “We are happy for this money to go down to the prosperous south-east.”

Baroness Hanham: You are actually moving into an area of how the money is allocated and where from. We receive an allocation from the European Union and we have to allocate that, but they do suggest regions that we need to support, and some of the areas then are picked up by that.

Q76 Mark Pawsey: So you would not support the case that money should really only go to the poorer regions. There should still be some allocated to richer regions.

Baroness Hanham: That will take us on to the argument that has been put forward on the next programme—from 2014–20—but at present, it is allocated by us to regions where we believe there is a problem, and London will allocate where it thinks it is.

Q77 Mark Pawsey: The strong case was just made to us in the previous evidence session that only countries with a GDP average of less than 90% of the EU average should receive funding. Do you not agree with that?

Baroness Hanham: The Government’s position for the future, as I am sure you know, is that the allocation should go very much to the least well-off countries. Therefore, richer countries such as Great Britain should not receive so much, but that is not the situation at the moment. There are transitional areas that are slightly better off, and then there are the less well-off.

Q78 Mark Pawsey: And if we went with the proposal of 90% below the EU average GDP as recipients of the funds, how much would Britain save?

Baroness Hanham: I have no idea what the figure would be, but we receive £2.8 billion in the programme.

Q79 Mark Pawsey: But we receive substantially less than we put into the fund. If the basis of the fund changed, presumably our contributions would reduce significantly.

Baroness Hanham: That would have to be an EU negotiation, because the structural funds are all part of the EU budget that we contribute to, and we get...
back whatever that proportion is. If we got it back in some way, first of all, we would have to completely renegotiate the system. There would have to be renegotiation of the Government of the structural funds themselves. Anyway, if we went to get it back, we would not at this stage get more than about 70% of it back, and it would take us years to do. So at the moment, we need to carry on the way we are.

Mark Pawsey: There is also a downside of moving to a 90% threshold, which is that there would be a significant adverse effect on Greece, Spain and Italy. How do you think we should deal with that problem?

Baroness Hanham: They have such huge problems anyway, but that again is part of the EU’s distribution of their funding. They are European states that are contributing to the EU and like everybody else, they will get funding back. If we were then able to move to a situation where we said the states that had the greatest problems got the greatest amount of money, that is a position we are taking and adopting for the future.

Q80 Simon Danczuk: Baroness, I am confused. Are you in favour of repatriation of the ERDF?

Baroness Hanham: Not under the present circumstances. I think there is an argument for repatriation. I hope that if it were repatriated, we would still get the same amount of money to spend in very much the same sort of way. But as I say, the Government’s position at the moment is that we should try to get the EU budget contribution down and then get a smaller proportion back for us. But I think there is no suggestion that we won’t get structural funds in the ERDF from the EU for at least the future.

Q81 Simon Danczuk: So the Government are not in favour of repatriating the ERDF?

Baroness Hanham: I think it is, but it is not practical at the moment. You can’t just repatriate funds at the present time. You have got to put it through the EU negotiations and you’ve also got to have agreement from the other member states, which I think we know we would find very difficult to get.

Q82 Simon Danczuk: But that is what the Government want to achieve?

Baroness Hanham: At the moment, the Government’s position for the next period of 2014–20 is, as I was saying, to achieve a reduced amount back for us and more for the less well-off states. For us—going back to Cornwall—I think that we would continue to get funding for Cornwall and we would probably continue to get a sum of money that we could distribute. But I think the ERDF will carry on for the time being and, in due course, if there is a way of repatriating, no doubt that will be discussed, but certainly not immediately.

Q83 Simon Danczuk: I am not particularly keen on going back to Cornwall, but in terms of 2014–20 would the Government not have preferred that to have involved repatriating ERDF back to Britain?

Baroness Hanham: As I say, I don’t know what the negotiations will be at that stage. As far as I am aware at the moment, we are sticking where I have said.

Q84 Heidi Alexander: Baroness Hanham, can I just check something? I think you said that your stated aim for the negotiations for the 2014–20 spending round was to get a reduced amount back for us—i.e. the UK—but to give more to poorer states. That is correct?

Baroness Hanham: That is the position that we have put forward for the 2014–20 round.

Q85 Heidi Alexander: How much do you want to negotiate the reduction in Britain’s contribution to the EU in order to achieve that, because presumably you have got a figure in mind? It is not just that you would give the same amount of money into the EU and get a reduced amount for the UK but more to poorer states. So could you just explain some of the figures around that?

Baroness Hanham: I’ve no idea what the Government, or the Treasury, are wanting to reduce the amount by, but the position is that there will be, or should be, a reduction. This is not something we can do on our own; again, it is something that has to be done with all the other member states. We would put forward our position and if it were agreed, then that would be agreed. But I think that in the economic situation we are in at the moment, and that all the other countries are in, there might be some enthusiasm for reducing the contributions.

Q86 Heidi Alexander: Can I just clarify something? If it was the case that you could not get an agreement around a reduction in the UK’s contribution to the EU, presumably your position would then change about having less money back from the structural funds and more money going into poorer countries and those poorer regions?

Baroness Hanham: I think our view will remain that, but if the situation was that, as you suggest, there was no change and the structural funds remained the same and the contributions coming back were the same, it wouldn’t make sense. I think, for us to refuse to take them, because it doesn’t get us anywhere; we are just left contributing to the budget and we’re not getting any benefit back from it in this term. I’m sorry; that sounds a bit generalised, saying “not getting any benefit”. But in terms of the ERDF, we wouldn’t get any benefit from that.

Q87 James Morris: May I just ask a couple of questions about the transfer of responsibilities for distribution of funds from the RDAs to your Department? We have had some evidence from local authorities that there have been delays with projects, problems with payment and so on. What are you doing to tackle these problems?

Baroness Hanham: I’m slightly surprised, I think, about that. We inherited from the 2000–06 programme very substantial liabilities building up. Those were on the basis of the RDAs managing the programmes, or not. There was about £236 million falling on to the DCLG’s account. When the RDAs were abolished, we
decided that the most sensible thing was to bring the management back into the centre, and then leave a local emphasis for delivery. I don’t think that there has been a huge hiccup in terms of payments from the centre, for that, and the projects, of course, are only paid for as they achieve certain levels.

Q88 James Morris: Have there been any examples of projects that haven’t been approved that were expected to be approved, as a result of the changes—things that have slipped through the net?
Baroness Hanham: As far as I know, there are not all that many that haven’t been approved and are ready to go.

Q89 James Morris: We’ve got some evidence, actually, from one of the authorities that I represent in the west midlands, that there have been problems with the ERDF not being allocated to innovative projects, and there have been administrative problems around that. Why do you think that’s happening? Do you think that is true?
Baroness Hanham: I don’t know the particular case, obviously, but what often happens in those cases is that the way the project is set up does not conform with the EC regulations. If it does not conform with the EC regulations then it cannot be carried out; if it is carried out, we are in danger of having the money clawed back and the project put into even more—

Q90 James Morris: So, if I am hearing you right, is the process snuffing out potentially innovative and risky projects that might have benefit?
Baroness Hanham: No, I don’t think so, but I think what it is doing is protecting them, in a way, so that they are set up to go in a way that ensures that they will be able to fulfil what they are trying to fulfil from the outset.

Q91 James Morris: Have there been considerable administrative savings from the transfer from RDA to the Department? Has that delivered savings to the public purse?
Baroness Hanham: It has delivered some, but probably not as much as you would suspect, because we have left, in the regions, programme delivery teams. We’ve got the local management committees as well.

Q92 James Morris: Is that the bleeding stump of the RDA, as it were?
Baroness Hanham: It is the experience; but what has changed very much is the fact that all the control—the management and the control of the funding—is now managed at the centre, which means that there is very tight control of what is being spent and what is going out, rather than what I think can be termed rather floppy control in the past.

Q93 Chair: Just looking at the Government’s approach on localism, generally this might be seen as a centralising move. Do you see any role for city regions or cities as part of the city deals getting more control over ERDF spending in the future?

Baroness Hanham: I think the Commission would quite like that. I don’t think we have made any decisions on it yet, because nothing has come forward that would deal with that; but I was talking to Commissioner Hahn a little while ago, who is in charge of all the RD funds, and they are certainly very enthusiastic in the Commission about cities and city deals.

Q94 Chair: Right. The Commission is enthusiastic. Are the Government?
Baroness Hanham: I am reserving my position on that because, as I say, we have had no applications, and no real thoughts about it, but if there are good projects put up, that are supporting regeneration, or supporting small businesses or new businesses—we need growth, as you know, wherever the growth comes from— I think we would consider it.

Q95 Chair: So the challenge is out there to city regions to come forward with the ideas, and then you’ll agree them.
Baroness Hanham: I think that that might be a challenge.

Q96 Heidi Alexander: Can I just ask about the spending of the current ERDF money within England at the moment? I think DCLG provided us with some figures that suggested that, by January of this year, 93% of ERDF money for England had either been contracted, applied for or spent. Yet when you actually look at the figures for the amount of money that has been contracted so far, that falls to 63%, which means that basically a third of England’s ERDF allocation needs to be contracted before the end of next year. Can you tell me how you and your Department are going to ensure that this money is used effectively?
Baroness Hanham: Quite a number of projects are in the pipeline and are set up—not contracted yet, but are set up, coming forward, have got match funding and are ready to go. We know that within that, 93% were either contracted or ready to contract. Moving on from there, we also have the local management committees in the local areas working up projects as well, and we expect that within the next year—well before the end of the time—we will have probably 100%. We do not expect to hand back money to the EU; we expect it to be spent.

Q97 Heidi Alexander: Okay. So if there were some underspend within a particular region, given that you do not want to be handing that money back, is it possible to transfer moneys from one region where there has been an underspend to another English region?
Baroness Hanham: It is easier to transfer it from one project to another within a region.

Q98 Heidi Alexander: So that is a possibility.
Baroness Hanham: Yes.

Q99 Heidi Alexander: But is it possible across regions?
Baroness Hanham: No. I was going to say that you could not, and you cannot. You cannot transfer money across regions.

Q100 Heidi Alexander: Okay. Can I ask what the Department’s position is on over-committing some of the spending at the moment, given the possibility of underperformance? You have this desire to make sure that all the money is spent. What is your Department actually saying? What is your position on over-committing spending?

Baroness Hanham: A small amount of over-commitment would be perfectly reasonable in order to ensure that the money is spent. It is a bit like British Airways; you probably run the risk then of not getting a seat. It makes sense to do that.

Q101 Bob Blackman: One of the issues for local government right across the whole of the UK is identifying match funding for the ERDF. What is your view on the current position? Many councils report through the LGA survey that the problem is that they cannot get the match funding, so the projects fall apart.

Baroness Hanham: Our experience now is that there are really quite a lot of areas for match funding. There are a number of bodies and the Government have a number of pockets now for match funding. The difficulty with match funding is people going out and finding it. I think you had Steve Fothergill of the Industrial Communities Alliance with you, and that organisation is putting together a guide for local authorities as to where they can get match funding from, because one of the difficulties is that they do not know where to go. Mark Prisk from BIS and I sent out a letter to local authorities a little while ago reminding them of where the various budgets or the various elements that can be used for match funding were. We are also finding that academics and universities are beginning to join in on this, and that where the local projects are worked up by the LEPs, they are bringing together quite unusual people to match fund. So I think there has been a hiatus, but I am beginning to see that work out.

Q102 Bob Blackman: One of the areas that is suggested is the regional growth fund. Have any projects been successful in using that for match funding yet?

Baroness Hanham: We have been quite disappointed in the regional growth fund. We had none at all in the first round. I think I am right in saying that 10 projects went forward in the next round, of which three so far have been agreed. I would like to see much more coming out of the regional growth fund because, after all, it is all working in the same direction—to get businesses up and running and to achieve growth. We are looking hard to see how we make sure that they fit the regional growth criteria.

Q103 Bob Blackman: Taking that, one of the suggestions we have heard in evidence is that the regional growth fund should be top-sliced and then allocated against ERDF projects, so that we get the matching funding—or that we get our money that we are already paying to Europe back into the regions—together with the regional growth fund, and actually getting some growth on the ground.

Baroness Hanham: I am sure it is a lovely suggestion, but I have not heard anything that would indicate that that is about to come about. They have not suggested it.

Q104 Bob Blackman: Clearly, suggestions have come forward to us in evidence from a variety of areas, suggesting that as a course. What we are looking at is the Government’s view on those suggestions. From your perspective, are the Government going to look at this as a serious possibility?

Baroness Hanham: From my perspective, I don’t know. To be fair, it is something that has been suggested, and we can take it forward. Of course, it is nothing to do with the Department in terms of how it is allocated.

Q105 Bob Blackman: So, what are the Government going to do to make match funding easier to gain?

Baroness Hanham: The Department, BIS, is doing what it can to make sure that there are areas that funding can come from. As I have said already, all the projects that we have so far, including those in the pipeline, have found match funding. I do not say that it is easy, but I do say that it is there.

Q106 Bob Blackman: But given that the growth in public expenditure is under severe constraint and that local authorities and other bodies are saying, “Well, we haven’t got the money that we once had,” identifying specific funding to provide match funding is very difficult indeed. Where are local authorities to get it from?

Baroness Hanham: I can tell you where they get it from. There is a Growing Places Fund. We have Business Coaching for Growth, broadband, the Coastal Communities Fund, the Technology Strategy Board and the regional growth fund. Then there are the universities and private funding. Where there is a project that has a lot of support behind it and is seen to be something that is really worthwhile, the funding, on the whole, can be found.

Q107 Bob Blackman: Clearly, projects initiated by some local authorities and other public bodies have literally fallen apart and have not got ERDF funding purely because they cannot get match funding, What is your message to those local authorities and other public bodies?

Baroness Hanham: My message is to keep looking to see where that match funding can come from. I do not say that it is easy; I was not suggesting that it was easy. What I am saying is that there are areas where match funding can be found, particularly where the local management committees and LEPs are in a strong position to feel out into the communities to find it.

Q108 Bob Blackman: Your Department’s guidance at the moment precludes the use of the private sector. Why preclude the private sector?
Baroness Hanham: I’m sorry. May I just check?
[Interruption.] Yes, the private sector can contribute, apparently.

Q109 Bob Blackman: According to the guidance that has come from the Department, other European funds and the private sector cannot be used for match funding.

Baroness Hanham: There are other European funds.

Q110 Bob Blackman: Or the private sector. I would be delighted if private sector funds could be utilised, but it appears that the guidance suggests that they cannot be.

Baroness Hanham: My advice is that private sector funding can be used for ERDF. We will look at what the guidance says.

Q111 Bob Blackman: It would be very helpful to clarify that for all the various different organisations which, at the moment, think that private sector funding cannot be used for match funding purposes.

Baroness Hanham: If that is so ambiguous, we will certainly get it changed.

Q112 Heidi Alexander: It all seems to be a bit of a mess. There is confusion about how we are going to get match funding to these projects for which ERDF funding is available. On the regional growth fund in particular, have you had any conversations with the Chair of the advisory committee, Michael Heseltine, about the problems with getting match funding for ERDF projects? What have you discussed with him about this problem?

Baroness Hanham: I have not personally, but the Secretary of State has. I know that they have discussed it because we were so concerned about not getting any in the first round that discussions have certainly taken place. As a result, we got at least the tail end of the second round, although they were not all agreed. So, yes, those discussions have taken place.

Q113 Heidi Alexander: Just to clarify, it was just the three projects that actually got it?

Baroness Hanham: It is three projects so far that have had support.

Q114 Chair: I hear what has been said about the fact that we should not lose any ERDF through lack of match funding in this round. Unless the Government take a strategic view on this, there is not a danger that projects that have the best outcomes may not be the ones that get funded because match funding cannot be found and that other projects will go ahead because match funding is available? Is that not the Government not having a strategic approach to this matter?

Baroness Hanham: I am not sure that it is the Government not having a strategic approach. I think the approach is the ERDF money is there. It is there for projects that can be approved and that get the match funding. There are areas that we know that we have to match fund for, because those are laid down by the European Commission. There are four areas at the moment that we have to support. I guess the answer is yes; if you cannot get money, you probably cannot put forward your best projects. But I think we are happy that the projects that are coming forward fit the criteria, do the job and contribute a lot to the growth.

Q115 Chair: That wasn’t quite my point. I am not disputing what you are saying. I am asking: might there be some even better projects that might fail because they, in that particular area, do not have an identifiable match funding pot to put against the ERDF?

Baroness Hanham: I suppose the answer to your question is probably yes, if they cannot convince someone else or another funding body that what they have is a really good project.

Q116 Chair: Is it not possible that the Government might like to think about the suggestion that Bob Blackman made a few minutes ago, about some element of top-slicing on the regional growth fund, so that that could be used in those cases where you have potentially very good ERDF bids that could not find match funding from elsewhere?

Baroness Hanham: I have no idea what the view would be—

Q117 Chair: With respect, you are a Minister.

Baroness Hanham: I know. I am a Minister—I quite understand that—but I am not the Treasury, nor am I the Secretary of State. Any negotiation on the regional growth fund will be done by the Secretary of State, and I am sure the Treasury will have a view on top-slicing.

Q118 Chair: You might like to communicate back to both of them that this is an idea that might be worth considering.

Baroness Hanham: I will say that I was asked the question and that I did not proffer a firm answer, but I am sure that that is something that they would want to consider.

Chair: Okay. Maybe at some point we could have a note on that.

Q119 Mark Pawsey: Baroness Hanham, I want to ask you some questions about the recent management of ERDF projects, specifically error rates and interruptions to funding that have arisen as a consequence. I understand that there have been two interruptions: from September 2010 to December 2010 and between March 2011 and July 2011. I wonder if you could explain to us what the errors were that led to these interruptions, how they came about, and where responsibility lies. Is it simply a question of poor management? Does responsibility lie at the door of the RDAs that were managing the projects previously?

Baroness Hanham: These are ERDF funds rather than the Interreg ones. These interruptions came about because the criteria that the money had been lent against were not being met. Once these projects are audited by us and by the European Commission, if they find that there is anything at all that is not being fulfilled as far as they are concerned, they will either
I want to come on to the 2014–20. We have not...

Some of them might be. They would get a lot less. These would be the ones where the reductions would come.

But if any of the interruptions lasted for longer, would there have been an impact on the delivery of some of these projects?

Baroness Hanham: Only if they were so seriously out of kilter and had made such serious errors and mistakes in how the money was being funded, it might be that we had to stop them.

Baroness Hanham: They came about because either the project itself did not conform to the regulations—

Baroness Hanham: Indeed they should. The RDA did not monitor them closely enough to see what was being done.

Baroness Hanham: Yes. I am much more confident than I could have been if I had anything to do previously.

Baroness Hanham: Because there is more activity taking place now. There is far more hands-on management of budgets and because the people who are in the localities—the project development teams—are not on their own. They do not have pots of money; they have to refer back and they have to come back to the centre continuously, so that we know exactly what they are doing.

Baroness Hanham: Absolutely.

Baroness Hanham: Some of them might be. They would not be totally squeezed out.

Chair: Okay. Again, would it be possible to have a note about that improvement, because the monitoring of output is particularly important? Without going into detail this afternoon, it might be helpful to find out what is happening.

Baroness Hanham: The Government’s position for 2014–20 at the moment is all I can tell you now. So by abolishing the RDAs and bringing this in house into the Department, can you be confident that such interruptions will not occur in the future?

Baroness Hanham: On the 2014–20, we have not asked for repatriation. We have asked for a reduction in the budget and for the money to be allocated to the less well-off states and the less well-off regions.


Chair: Okay, I understand that. In terms of the position on how money should be spent, there is this third category of regions, between 75% and 90% of the EU average GDP. If the Government’s policy is about having less money back to this country to spend, are we now not in favour of helping that particular group of regions?

Baroness Hanham: I think it would be second on our list. They are the transition regions. They would qualify for ERDF. It would depend how much money we actually get back and how much can then be allocated.

Baroness Hanham: It would mean that we would go for the regions that were the least well-off.

Chair: So does that mean that this group of regions, the third category at 75% to 90% of EU average GDP, would be squeezed out in that scenario?

Baroness Hanham: Some of them might be. They would not be totally squeezed out.

Chair: But they would get a lot less. These would be the ones where the reductions would come.
Baroness Hanham: They would get less.

Q138 Chair: One of the criticisms that we have had is that when some organisations, particularly smaller ones, are trying to get projects together, they have got ERDF funding, other EU sources of funding, regional funding and Government funding and they are trying to pull them all together. Is there any way that that could be simplified or will the Government be arguing for simplification as part of the settlement from 2014 onwards?
Baroness Hanham: The money is going to individual projects. Is that what you are asking about?

Q139 Chair: Yes. They often draw down on so many funding streams and different funding streams from Europe itself. Is there any way of simplifying the process that the Government would like to see?
Baroness Hanham: I think not at the moment, probably.

Q140 Chair: Are we putting any ideas to the Commission about how that could be done?
Baroness Hanham: We will put forward some ideas to the Commission on it. We have not been, but I think that your point is very well made.

Q141 Chair: Again, if we could have a note at the time when those are put forward, that would be helpful. When we had Dr Palma Andrés from the Commission last time, he said that the Commission had put forward a proposal that 5% of ERDF should be ring-fenced for integrated actions for sustainable urban areas. It was quite keen on that, but the UK Government were not and had opposed it. Do we know why?
Baroness Hanham: No, I am afraid not. Would you like a note on that?

Q142 Chair: It looks from the expressions behind me that a note would be highly—again, a note on that might be helpful. Finally, in terms of conditionality, is Government policy in favour of funding conditionality and how might that work in the rather tricky circumstances that some countries are currently facing?
Baroness Hanham: I am sure that I ought to know what conditionality means, but I do not.

Q143 Chair: It looks from the expressions behind me that a note would be highly—again, a note on that might be helpful. Finally, in terms of conditionality, is Government policy in favour of funding conditionality and how might that work in the rather tricky circumstances that some countries are currently facing?
Baroness Hanham: I am sure that I ought to know what conditionality means, but I do not.

Q144 Chair: It is other countries probably, rather than us. If Greece or Spain were not conforming and were taking longer to make adjustments that had been required of them, technically they could have the whole of the ERDF funding stream switched off. What is our Government’s position on that?
Baroness Hanham: It would require the whole of the EU to agree to that, I think.

Chair: I think conditionality does mean that that could happen, but of course there is always potential to waive conditionality where appropriate. I wondered if the Government had a policy on that.
Baroness Hanham: Do we have a policy on this? We are apparently not keen on conditionality—if that is a policy. We are not keen on it.

Chair: Right. It sounds like a policy to me, so I will accept it as such.

Q145 Bob Blackman: The Commission published the common strategic framework and also the draft partnership contract, which are now out to consultation. Do you know when the Government will respond formally? If we could have a copy of what response there is, that may well inform our report.
Baroness Hanham: They will respond within the time frame. In the summer. We will be responding in the summer.

Q146 Bob Blackman: In the summer. How long does the summer stretch for?
Baroness Hanham: In June.

Q147 Bob Blackman: Is that on the common strategic framework as well? The partnership, we know, will have a response in July, but for the common strategic framework, apparently consultation is ongoing. We do not have any dates for a response according to the evidence that your Department has supplied thus far.
Baroness Hanham: If I had thought that you were going to ask that question, I would have had the answer. For the common strategic framework, the response will be by the end of June. I am sorry not to have known the answer to that immediately.

Q148 Heidi Alexander: Just going back to the issue of conditionality—I appreciate that you are not keen on it—it is perhaps not for this afternoon, but I think it would be useful to have the reasons for the Government’s position on conditionality. Perhaps a note to the Committee would be useful.
Baroness Hanham: I am happy to do that.

Chair: Thank you very much indeed for coming to give evidence this afternoon.
Baroness Hanham: Thank you very much.
Written evidence from the European Commission

SUMMARY
— In the 2007–13 period, ERDF programmes in England reflect both The European Union’s growth and jobs policy priorities as reflected in the Community Strategic Guidelines and the UK National Strategic Reference Framework.

— The ERDF programmes focus mainly on the drivers of regional productivity. ERDF funds are primarily deployed to support research and innovation (30% of the English ERDF budget allocation) and the SME sector (35%).

— The ERDF complements national policies. A close alignment with national funding streams has been sought to generate maximum benefits and leverage effect for the ERDF investments.

— The added value of ERDF funds to the English economy is derived through concentration on specific activities, the launch of financial engineering instruments and the additional capacity created in economic and research infrastructure in the less prosperous areas. The promotion of equal opportunities and environmental sustainability form an integral part of the ERDF regulatory framework.

— The ERDF helped combat the effects of the recession and enabled SMEs to gain access to funding during the financial crisis.

How and on what is ERDF spent?
— Structural funding is implemented on the basis of the principle of shared management. Thus, programmes are devised to reflect a number of policy priorities both at EU and at national level. The 2007–13 period included the translation of the Growth and Jobs agenda into funding priorities in the Community Strategic Guidelines which, in turn, were reflected at national level in the National Strategic Reference Frameworks.

— The UK Government argued in its National Strategic Reference Framework (NSRF) for the 2007–13 programming period that the less developed UK regions were growing too slowly relative to the more prosperous ones. The main cause of their poor growth was identified as a lack of relative competitiveness. Enhancing regional economic performance requires measures geared to improving productivity growth. Thus, to increase the productive performance of the assisted regions, it was decided to address five drivers of productivity that underpin regional competitiveness: skills, enterprise, innovation, competition and investment in physical capital.

— The Government strategy for spending its Structural Fund allocations in England reflected both the Community Strategic Guidelines and the government policy. Both the Commission and the UK Government expected ERDF programmes to be aligned with Regional Economic strategies and to be coordinated with other domestic policy support.

— The UK NSRF described the main priorities behind the 2007–13 ERDF programmes which were in line with the drivers of regional productivity. The NSRF document placed particular emphasis on enterprise and innovation through the promotion of research, knowledge transfer and commercialisation, the encouragement of entrepreneurship and support for the SME sector. In line with EU priorities, it also promotes environmental and community sustainability and social and economic cohesion.

— The English ERDF programmes are focused on areas where they can make the biggest impact in conjunction with other funding streams. ERDF funds in England are primarily deployed to support research and innovation (30% of the total English ERDF budget allocation) and the SME sector (35%). Whilst 63% of the overall ERDF budget has been committed to projects, an evaluation study commissioned by the Commission’s Directorate-General for Regional Policy confirmed that the way in which the funding is being spent conforms to the NSRF priorities.

Is the taxpayer in England obtaining value for money from the ERDF?
— In the NSRF, the English authorities underlined that “[...] one of the Government’s main objectives for the delivery of future Structural Funds Programmes is to ensure greater coordination with domestic policy. The Government will ensure that the priorities for future Programmes are consistent with both the Community Strategic Guidelines and domestic strategies for regional development and employment”.

— Furthermore, the English authorities state in respect of the ERDF that “[...] the funds in England should be aligned with the domestic funds, in particular the RDA Single Programme to provide strategic fit, improve co-ordination of investments, and streamline processes for project commissioning, decision making and for programme management”.

— The synergies between European and national policies ensure that maximum value is derived from the ERDF investments. The multi-annual programming approach of the Structural Funds enables the programmes’ management to conduct longer-term actions aimed at creating transformational changes in the economy.

— There are several ways in which ERDF assistance adds value to the English economy:
— ERDF adds value as a result of concentration on specific activities and sectors of the economy. ERDF maximises its contribution to increasing the competitiveness and productivity of the local economy through targeted investments, thus closing the gap with the most prosperous parts of the nation. For example, in North-West England, the first priority of the programme focuses on sectors with potential for rapid growth (ie biomedical, energy and environmental technologies). Under Priority 1 in the North-East England programme, ERDF enhances the resources available for support of the development and application of renewable energy.

— ERDF enables the creation of financial engineering instruments to support the economy in areas where market failure exists. In the absence of ERDF, it is most unlikely that financial instruments would have been made available by public entities to help fund the finance gap.

— ERDF adds value by providing additional investments in economic infrastructure or new R&D capacity that would not otherwise happen. ERDF funds dedicated to Priorities 1 and 2 in the majority of the English programmes have contributed to these achievements.

— ERDF offers added value by increasing the focus on equal opportunities and environmental sustainability within the actions supported under the programmes.

— In addition to the primary objectives pursued by the ERDF, it has helped combat the effects of the recession when public funding has been more scarce. Financial engineering instruments funded by ERDF have also alleviated the consequences of the credit crunch on SMEs.

— According to the English authorities, English ERDF programmes to date have created 8,700 gross jobs and safeguarded 16,462 jobs. In addition, they have supported over 2,800 start-ups and nearly 5,000 SMEs.

— In conclusion, ERDF does not substitute public funding but complements public investment in the less prosperous areas of England. The added value for the tax-payer results from a careful selection of actions aimed at stimulating the growth of the economy and the creation of jobs.

Could the funds contributed to and paid out on regeneration through ERDF be spent more effectively by repatriating ERDF to government in London?

— The Structural Funds are aimed at reducing disparities between the level of development of the various regions. Structural Fund allocations are assigned according to the relative prosperity of the regions in terms of GDP and other socio-economic indicators.

— Assistance provided by the Structural Funds is complementary to that delivered through national policies. Structural Funds assistance reflects European Union policy priorities. The preparation of the Structural Fund programmes takes into account the socio-economic analysis of each region as well as EU and Member States policy objectives.

— Structural Fund policies are governed by different principles to those used in implementing national public policy. They are guided by the principles listed in Chapter IV of Regulation (EC) No 1083/2006, which are as follows:

  - Structural fund commitments are programmed on a multi-annual seven-year basis by defining the financing plan at Commission level whereas national public budgets are established on a yearly basis. Once agreed through a Commission decision, the Structural funds pattern of spending is known for the duration of the programming period and is less affected by changes in national policy.

  - The partners designated by the national authorities are closely involved in the preparation, implementation, monitoring and evaluation of the programmes. The partners are represented in the Monitoring Committees which are tasked with ensuring effectiveness and quality of implementation. Thus, partners play a key role in the lifecycle of the programmes.

  - The Structural Funds target the EU priorities of promoting competitiveness and creating jobs. For instance, in less developed areas, 75% of the expenditure is focused on these two priorities. Structural Funds have a narrower scope of intervention than national instruments to ensure that by concentrating the funding on certain themes, its value added increases.

  - The Structural Funds budget is implemented within the framework of shared management. Shared management means sharing responsibility between the Commission and the Member States, with each party assuming its own obligations in line with the applicable legislative framework.

  - An EU-wide policy enables an EU-wide exchange of ideas, and structural funds have promoted this through exchange of experience programmes (such as Inter-regional co-operation, Fast-track networks, URBACT) and various twinning, training and benchmarking initiatives. Moreover, the influence of EU actions can be clearly seen in Member State policies; the “Leipzig Charter on Sustainable European Cities” adopted by Member States in 2007 recommends greater use of integrated urban development, based on visible and popular cohesion policy actions in this field.

  - In summary, the Structural Funds have unique features which cannot be replicated at national level. They are guided by a clear set of principles and primarily concentrate on definite objectives which aim to eliminate disparities among the regions and, as such, complement national policies avoiding overlaps in the actions undertaken.
With the abolition of the Regional Development Agencies responsibility for ERDF in England passes to DCLG. What effect are these changes having on the administration, assessment and payment of ERDF?

— Following the UK government decision to abolish the RDAs, the managing authority (which remains the Department for Communities and Local Government) will no longer use designated intermediate bodies. These so-called intermediate bodies (which stem from a provision in the Structural Fund regulatory framework) are designed to carry out some of the functions of the managing authority on a day-to-day basis.

— The functions of the managing authority are now performed by DCLG officials, through the ERDF Programme Strategy and Coordination department and the ERDF Programme Delivery Teams (“PDT”).

— The DCLG has retained the experience of these PDT teams (formerly employed by the RDAs) by integrating them into their organisation. The teams are based in the programme areas. The PDTs are responsible for running the day-to-day operations and developing and appraising the projects whilst the implementation of projects is entrusted solely to project sponsors. Whereas the RDAs were managing ERDF projects, the PDTs are no longer final beneficiaries of ERDF assistance. Alternative sources of match funding are being identified.

— Since taking over the management of the programmes, the DCLG has reinforced the management and control systems surrounding the ERDF operations. The 2011 Annual Control Report stated an average error rate of 1.54%, well below the European Court of Auditors acceptable error rate level of 2%. This figure confirms a considerable improvement in relation to 2010, when the error rate for a number of English programmes was above the materiality level.

To strengthen the control environment, the DCLG has streamlined the business process across the PDTs. Enhanced management verifications are now carried out over the lifetime of the programmes. The DCLG has also contracted an outside consultant to carry out in-depth verifications on projects that are qualified as high risks in order to identify further issues with the systems and correct them in the new setup.

— The mid-term evaluation of the OPs has confirmed that, despite the economic downturn, their strategic priorities should not be significantly altered, although there may need to be a slight shift in the balance of priorities.

Written evidence submitted by the Local Government Association

1. Summary

1.1 The Local Government Association (LGA) is a voluntary membership body and our member authorities cover every part of England and Wales. Together they represent over 50 million people and spend around £113 billion a year on local services. They include county Councils, Metropolitan District Councils, English Unitary Authorities, London Boroughs and Shire District Councils, along with Fire Authorities, Police Authorities, National Park Authorities and Passenger Transport Authorities.

1.2 We welcome the opportunity to respond to the DCLG Select Committee Inquiry into the functioning of the European Regional Development Fund.

1.3 Councils have a long and successful history of engaging with the European programmes for economic and skills development, using them to turn the lives of people and places around—and are keen to continue this.

1.4 While the institutional landscape has changed recently with the emergence of Local Enterprise Partnerships (LEPs) and the abolition of Regional Development Agencies (RDAs), councils remain one of the key drivers of growth. Councils’ continued work on economic growth is therefore vital.

1.5 We have built this submission around the questions posed by the committee inquiry, and from our response would like to emphasise the following key messages:

1.5.1 European Regional Development Fund provides valuable support to local projects that would not otherwise exist.

1.5.2 Every place has different opportunities and barriers to growth; and Local Government has a long history of using ERDF to turn their places around—playing a range of managerial, administrative, strategic, and supporting roles.

1.5.3 The transition of management for ERDF following the abolition of Regional Development Agencies has gone relatively well; although there is some concern around the availability of match-funding which has affected many projects.

1.5.4 It is now certain that England will have ERDF from 2014–20, and so we want to focus on making sure that investment delivers the best possible outcomes for local economies.

2. How and, on what, is ERDF spent?

2.1 The European Regional Development Fund has primarily aimed to revitalise economies through investing in capital assets and infrastructure, supporting small and medium sized businesses, and funding innovation in key sectors.
2.2 ERDF is allocated to areas based on their level of deprivation assessed by their GDP level of the EU average. These areas, categorised by the EU as NUTS II, are sub-regional and generally mirror County or City boundaries, although overall programmes have been run regionally (previously managed by the Regional Development Agencies).

2.3 Councils access and use ERDF to achieve positive change for their communities. Examples can be found in our report More than Money: maximising the value of EU funds.

2.4 Generally speaking, the priority areas for investment can be relevant to most places given their broad nature. However the needs between local economies differ—for instance the growth opportunities in Leicester, Blackpool and Newcastle will vary significantly.

2.5 The trick is to give local partners at the level of functional economic areas the scope to tailor ERDF investment to deliver against their longer term ambitions for the place. The abolition of the Regional Development Agencies and move towards the 2014–2020 programmes provides a critical opportunity to establish ERDF programmes that—in line with government policy—better respond to the needs of functional economies.

2.6 The European Commission’s proposed regulations for the 2014–20 ERDF programmes place greater emphasis on the need for the programmes to be more locally responsive, including a stronger role for local authorities and more tools making it easier to delegate funding to local areas.

2.7 Local Government has played a variety of crucial roles in ensuring communities and businesses benefit from ERDF, this includes: managing and delivering some local elements of ERDF, strategically leading and shaping ERDF investment plans, accessing ERDF to run projects (including the provision of match-funding), and supporting local businesses and third sector organisations to access the funds. Councils are keen to continue playing this variety of roles in the future.

2.8 ERDF also funds participation in the nine European territorial cooperation programmes, such as Interreg. These programmes enable partners in England to work in cooperation with European partners in the pursuit of joint objectives. Councils, together with universities, are generally most active in these programmes.

3. Is the taxpayer in England obtaining value for money from the ERDF?

3.1 Yes. But there is always scope to better improve the efficiency and outcomes from ERDF. To achieve additional value for money, ERDF should: be locally relevant, deliver EU added-value, join-up with other investment streams in an area, and be managed effectively. We look at each of these briefly below:

3.1.1 Locally relevant—ERDF must fund projects that are relevant to the needs of communities and businesses, contributing to the prosperity of their areas. Councils, as locally accountable agencies with agreed strategies for developing their economies, are perfectly placed to help ERDF achieve this. Over-prescription of spending priorities and management decisions at the EU and national level must not militate against this, local partnerships must be free to lead and shape spending in their area.

3.1.2 Deliver EU added-value—ERDF can offer a range of additional benefits that domestic funds generally do not. We have explored these in some detail in More than Money: maximising the added value of EU funds, arguing added value can include: stable seven year programming periods, new partnerships, innovation in spending, and funding for projects that would not otherwise exist.

3.1.3 Join-up with other investment—It is crucial that ERDF fits with other national and local investments seeking to achieve similar objectives within places. This reduces duplication, and will be important for ensuring there is sufficient match-funding available to draw down ERDF investment. Furthermore, matching capital investment from ERDF with revenue spending from other programmes is valuable, for instance allowing local authorities to match ERDF funded job creation activity with skills provision to train-up local people to take those jobs.

3.1.4 Efficient management—EU programmes can be plagued by administrative complexities and burdens, with EU auditors coming down heavily on instances of financial mismanagement. Effective management of ERDF is important for delivering value for money, but it is critical that ERDF Managing Authorities do not focus on efficient administration to the detriment of flexible responsive spending meeting the needs of communities.

4. Could the funds contributed to, and paid out on, regeneration through ERDF be spent more effectively by repatriating ERDF to the Government in London?

4.1 No, while the funds are far from perfect, they guarantee local areas a stable level of investment over seven years—this would not be the case if funds were repatriated.

4.2 Either way, negotiations in Brussels now make it certain that England will continue to have ERDF from 2014–20, and discussion should now focus on how to make that investment work best for businesses, communities, and economies.

4.3 It is well accepted by Government and partners that the national economy is made up of a series of local economies, with few clear patterns between northern and southern areas or between urban and rural areas, the
latest EU GDP statistics show that England has the widest disparity between rich and poor areas in the whole of Europe—a one-size fits all model cannot address the disparities between areas.

4.4 ERDF must therefore be taken as part of the wider devolution of economic development policy which is beginning to give Local Enterprise Partnerships and Cities new tools to support growth. But as part of this, it is likely that different local authorities and their partners will want to engage with ERDF in different ways, depending on; the allocation of ERDF to their area, their ambitions and administrative potential, and on the economic strategy for their place.

4.5 We believe Government should invite local areas to consider how they might best engage with ERDF from 2014–2020, so that a future delivery model can be designed in a way that balances local influence over spending with the disproportionate administrative demands of the programme at local and national levels.

4.6 In essence, Local Authorities may seek to play five general roles, including:

4.6.1 Managing local elements of ERDF—Local Authorities, as individuals or in groups, are well placed to deliver local elements of ERDF as part of a wider local economic strategy for their sub-regional economy, which may include a Town, City, County, or group of Counties. Local partners must have the opportunity to explore whether (and how) sub-regional management is realistic, and to pursue it if so.

4.6.2 Locally shaped priorities and objectives—local partners must have the opportunity to influence the spending of ERDF in their area so that it fits with the local economic strategy for a place; this can be achieved through day-to-day influence over administrative teams, project sign-off responsibility, seats on management and oversight committees, and in negotiating and agreeing the new ERDF programme.

4.6.3 Accessing programmes to deliver projects—Local Authorities will be a leading agency in accessing the programme to deliver projects in their area, often providing match-funding to draw it down, and will often be partners in bids from other partners. In those places where the ERDF is responsive to local priorities, Local Authorities may be content to access ERDF in this way with minimum involvement in programme management.

4.6.4 Innovating with ERDF investments—Councils are well placed to use ERDF in new and innovative ways, for instance in establishing revolving funds such as JESSICAs and JEREMIES. This will be increasingly important in future programmes, so too will be greater link up with European Investment Bank initiatives.

4.6.5 Supporting businesses and third sector organisations to access ERDF—Councils help promote and support the development of bids for ERDF from other groups, and can access Technical Assistance funding to set up units that can do this more thoroughly. Local agencies should continue to be able to provide this function, ensuring high performing local business and third sector organisations are supported to grow by ERDF.

4.7 There are all sorts of different ways that ERDF can be delivered, while still contributing to local ambitions for each place. In our report, EU Funds and Place Based budgets, we set out one approach whereby ERDF might be spent in a way that helps address government’s major public service objectives, that is to achieve better value for money, to be more effective, and to be driven by communities.

4.8 We set out an ambitious but achievable approach, which first joins up the delivery of the main EU funds (including ERDF, the European Social Fund and the European Rural Development Fund) into a set of single programmes at the sub-national level, and then offers local partners the opportunity to manage local packages of EU funds as part of a joined-up local development budget.

5. With the abolition of the Regional Development Agencies, responsibility for ERDF in England passes to DCLG. What effects are these changes having on the administration, assessment and payment of ERDF?

5.1 The abolition of the Regional Development Agencies sparked one of the largest mid-programme changes to ERDF in its history. We were supportive of Government’s focus on trying to implement reforms with minimum disruption to spending on projects, while taking opportunities to give local areas greater influence over spending with a commitment to making the future 2014–20 ERDF programmes far more locally driven.

5.2 The general approach pursued by DCLG has been to maintain the regional ERDF management teams, but moved into the department’s organisational structure, and reorganising the membership of the newly named Local Management Committees. There have also been steps taken to harmonise some administrative processes between the different regional programmes. Generally speaking, the administrative transition has gone well.

5.3 However many projects fell through or were put at risk by the withdrawal of RDA match-funding, the cuts have also increased concerns that there are insufficient resources to draw down the remaining funds left in the ERDF programmes. An LGA survey revealed that over two-thirds of respondent councils were not confident about the availability of match-funding for the ERDF remaining in their regional programme, over half had projects or potential projects which had either fallen through or were at risk of doing so.

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5.4 Government has sought some measures to attract match-funding, from the Regional Growth Fund for instance, but over the next year or so it may become apparent that some elements within programmes are not meeting their spending targets due to an unavailability of match-funding. If the circumstance arises we would urge government to consider what is necessary to ensure all ERDF funds are drawn down during this critical time for local economies, because we cannot afford to return this investment to Brussels.

6. Final comment and further information

6.1 We welcome the DCLG Select Committee’s inquiry into the functioning of ERDF. We would be pleased to follow up with partners on anything offered in this submission, and would be happy to offer oral evidence to the committee.

6.2 Further information on reports referenced in this submission can be found online at http://www.local.gov.uk/eu-funding, including:

6.2.1 More than money: maximising the value of EU funds.
6.2.2 EU funding survey on council involvement with future EU funds.
6.2.3 EU funds and place-based budgets.

Local Government Association
April 2012

Written evidence submitted by the Chief Economic Development Officers Society (CEDOS) and the Association of Directors of Environment, Economy, Planning and Transportation (ADEPT)

SUMMARY OF EVIDENCE

— ERDF is co-funding a wide range of local economic regeneration projects, assisting businesses, job creation and helping to boost economic development and growth. Examples from CEDOS & ADEPT member authority areas illustrate the role of ERDF in enabling key projects to go ahead.

— Whilst a full assessment of value for money will only be possible when the current programme period is completed, projects are assessed at application stage against value for money criteria followed by checks to ensure key milestones and outcomes are met. To optimise value for money for the taxpayer it is important to strike a balance and ensure the project application and decision-making processes and the monitoring requirements are not too burdensome.

— The withdrawal of RDA match funding led to local authorities and other partners having to spend a significant amount of time trying to find alternative match funding and to projects being curtailed and/or closed early, reducing their effectiveness and overall value for money.

— Improving value for money for the taxpayer requires simplifying administration, a reduction in central direction and bureaucracy and better alignment of ERDF with local area priorities.

— Local authorities and Local Enterprise Partnerships (LEPs) should play a key role in designing and delivering ERDF programmes in England in partnership with DCLG. A devolved approach would be consistent with the Government’s localism agenda and maximise ERDF’s potential benefit and value for money.

— A devolved approach would assist assembling match funding, which could be further enhanced by taking a joined-up approach to different funding streams for economic growth and regeneration and enabling them to be pooled at a LEP or other appropriate spatial level.

— Repatriation of ERDF could disadvantage economic regeneration and growth, with no guarantee of repatriated funds being used to maintain a long-term funding approach nor that they would be applied to regeneration at all.

— There is real benefit in retaining access to the ERDF. The European Commission proposals for the next period of EU regional policy offer the prospect of assisting all parts of England and providing potentially significant support to a substantial number of areas.

— ERDF needs to be responsive to local and regional needs. If it were to be centralised into a nationally focused and operated programme for England, it would lead to a prescriptive one-size-fits-all approach, resulting in duplication of activities, stifling of innovation and a dilution of effectiveness and value for money.

— Transfer of responsibility for ERDF to DCLG took place in July 2011 and it is too early to assess the impact of the changes on the administration, assessment and payment of ERDF and what the long term effects will be, although we have had reports of issues regarding administration and the claims process.
INTRODUCTION

1. This Memorandum of evidence is submitted jointly by the Chief Economic Development Officers Society (CEDOS) and the Association of Directors of Environment, Economy, Planning and Transportation (ADEPT).

2. The Association of Directors of Environment, Economy, Planning & Transport (ADEPT) represents local authority Strategic Directors who manage some of the most pressing issues facing the UK today. ADEPT membership is drawn from all four corners of the United Kingdom. The expertise of ADEPT members and their vision and drive is fundamental in the handling of issues that affect all our lives. Operating at the strategic tier of local government they are responsible for delivering public services that relate to the physical environment and the economy.

3. The Chief Economic Development Officers Society (CEDOS) provides a forum for Heads of Economic Development in upper tier local authorities throughout England. Membership includes county, city and unitary councils in non-metropolitan areas, which together represent over 47% of the population of England and provide services across over 84% of its land area. The Society carries out research, develops and disseminates best practice and publishes reports on key issues for economic development policy and practice. Through its collective expertise, it seeks to play its full part in helping to inform and shape national and regional policies and initiatives.

4. CEDOS and ADEPT welcome the opportunity to submit evidence to the Communities and Local Government Committee’s inquiry into the operation of the European Regional Development Fund (ERDF) in England. Our joint evidence has been framed in the light of consulting with our members across the country. It focuses on the areas suggested by the Committee in the context of both the current ERDF programme for the period 2007–13 and the next period of EU regional policy 2014–20.

How, and on what, is ERDF spent?

5. The European Regional Development Fund is focused on reducing economic disparities within and between EU member states by supporting economic regeneration and safeguarding jobs. The Department for Communities and Local Government (DCLG) states that since 2000 England has benefited from more than €5 billion of funding, with a further €3.2 billion being invested in local projects around the country in the current ERDF programme for 2007–13 under the EU convergence and regional competitiveness and employment objectives.

6. Under the 2007–13 programme, ERDF is co-financing a wide range of local economic regeneration projects, assisting businesses, job creation and helping to boost economic development and growth, although the allocations of ERDF within England and the extent to which projects have been able to achieve ERDF support vary in different parts of the country. The following examples from our member authority areas across the country illustrate the role of ERDF in enabling key projects to go ahead:

—— Cornwall—Innovation centres: almost £40 million of strategic investment to construct incubation space to enable start-up and high growth businesses to grow and innovate in 3 locations in the county, meeting a workspace demand that was not previously being met;

—— Cornwall—Superfast broadband: a £132 million programme (£53.5 million from ERDF) that aims to make Cornwall and the Isles of Scilly one of the best connected places in the world by 2014–15. With faster internet speeds boosting business productivity by bringing services and opportunities more quickly to customers, it is helping to transform Cornwall’s economy;

—— Devon—Knowledge intensive services for SMEs: Devon County Council is currently participating in six projects supported by ERDF under the EU Interreg Programme\(^2\) including the AtlantKIS project for the development of knowledge intensive services for small businesses including ICT and research and development;

—— East of England—Low carbon economic growth: In the East of England\(^3\) the ERDF programme has focused on innovative solutions to low carbon economic development, including a low carbon investment fund, demonstrator projects and a range of resource efficiency projects to improve business efficiency;

—— Hull—Acorn fund: Begun eight years ago by Hull City Council and the Hull & Humber Chamber of Commerce this provides gap funding to viable business propositions that cannot get funding from traditional sources. Over 50% of support is to new start-up projects and to date the Fund has invested over £9 million in the local economy helping to create over 4,000 jobs and 700 new businesses. The Fund is now raising growth capital with the assistance of a £1 million ERDF grant.

—— Lincolnshire—Food technology centre: Lincolnshire is a major area for the UK’s food and drink industry. ERDF is helping to develop one of the UK’s leading food research and development facilities in the county putting the structure in place to help businesses innovate, attract quality staff and grow their markets, which is improving the area’s ability to attract private investment:

\(^2\) The EU Co-operation (Interreg) Programme helps Europe’s regions form partnerships to work together on common projects, sharing knowledge and experience to develop new solutions to economic, social and environmental challenges.

\(^3\) Covering the counties of Essex, Hertfordshire, Cambridgeshire, Norfolk & Suffolk and the unitary council areas of Peterborough, Bedford, Central Bedfordshire, Luton, Thurrock and Southend.
6. The European Commission’s proposed Common Strategic Framework, which envisages a better combining of regional and local regeneration and enabling them to be pooled at a LEP or other appropriate spatial level. This would fit with the Government’s localism agenda and would maximise ERDF’s potential benefit and value for money. It would also provide an opportunity for further enhancement by taking a joined-up approach to different funding streams for economic growth and the match funding required to access ERDF support. The ability to do this and increase value for money could be delivered through the new Regional Development Agency (RDA) single programme model and EREADF funding matched by Lincolnshire County Council to a total of £1.65 million.

7. Shropshire—Business fund: Launched by Shropshire Council in 2009, the Shropshire Business Fund provides capital grants to start-up and existing small and medium sized businesses. So far, 176 businesses have been supported, assisting the creation of 105 full-time jobs and 60 new businesses. £1 million of ERDF has been secured to enable the scheme to continue jointly with Herefordshire Council and other partners.

8. Another issue affecting value for money in the current ERDF programme was the ending of Regional Development Agency (RDA) single programme funding following the decision to close the Agencies. The RDAs had been a key source of the match funding required to access ERDF and the problems caused by the withdrawal of RDA funding led to local authorities and other partners having to spend a significant amount of time trying to find alternative match funding and to projects being curtailed and/or closed early, reducing their effectiveness and overall value for money.

9. Looking to the future, we consider that improving value for money for the taxpayer requires simplifying administration, a reduction in central direction and bureaucracy and better alignment of ERDF with local area priorities. To achieve this, we consider local authorities and Local Enterprise Partnerships (LEPs) should play a key role in the design and delivery of ERDF programmes in England in partnership with the Department for Communities and Local Government. A devolved approach, which enables local partners to shape, manage and deliver programmes based on local needs, local assets and local opportunities, would be consistent with the Government’s localism agenda and would maximise ERDF’s potential benefit and value for money.

10. A devolved approach with a better match with local priorities would assist identifying and assembling the match funding required to access ERDF support. The ability to do this and increase value for money could be further enhanced by taking a joined-up approach to different funding streams for economic growth and regeneration and enabling them to be pooled at a LEP or other appropriate spatial level. This would fit with the European Commission’s proposed Common Strategic Framework, which envisages a better combining of regional and local regeneration through the new Regional Development Agency (RDA) single programme model.

**Is the taxpayer in England obtaining value for money from the ERDF?**

7. A full assessment of overall value for money will only be possible when the current programme period is completed. However, as far as individual projects are concerned, all projects are assessed at application stage against value for money criteria followed by checks carried out during the lifetime of projects to ensure key milestones and outcomes are being met. Whilst assessment criteria and checks are important, to optimise value for money for the taxpayer, it is important to strike a balance and ensure the project application and decision-making processes and the monitoring requirements are not unnecessarily burdensome. We understand that in some areas some organisations have been significantly put off even considering applying for EU funding, largely due to overly onerous bureaucracies imposed through the interpretation of EU regulations by the UK Government and the extremely lengthy timescales for the consideration and approval of proposals.

8. Another issue affecting value for money in the current ERDF programme was the ending of Regional Development Agency (RDA) single programme funding following the decision to close the Agencies. The RDAs had been a key source of the match funding required to access ERDF and the problems caused by the withdrawal of RDA funding was highlighted in our evidence to the Committee’s Inquiry into regeneration. The withdrawal of RDA funding led to local authorities and other partners having to spend a significant amount of time trying to find alternative match funding and to projects being curtailed and/or closed early, reducing their effectiveness and overall value for money.

9. Looking to the future, we consider that improving value for money for the taxpayer requires simplifying administration, a reduction in central direction and bureaucracy and better alignment of ERDF with local area priorities. To achieve this, we consider local authorities and Local Enterprise Partnerships (LEPs) should play a key role in the design and delivery of ERDF programmes in England in partnership with the Department for Communities and Local Government. A devolved approach, which enables local partners to shape, manage and deliver programmes based on local needs, local assets and local opportunities, would be consistent with the Government’s localism agenda and would maximise ERDF’s potential benefit and value for money.

10. A devolved approach with a better match with local priorities would assist identifying and assembling the match funding required to access ERDF support. The ability to do this and increase value for money could be further enhanced by taking a joined-up approach to different funding streams for economic growth and regeneration and enabling them to be pooled at a LEP or other appropriate spatial level. This would fit with the European Commission’s proposed Common Strategic Framework, which envisages a better combining of regional and local regeneration through the new Regional Development Agency (RDA) single programme model.

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* Stimulating use of sustainable technologies and innovation.
* Communities & Local Government Select Committee Inquiry into Regeneration: CEDOS/ADEPT supplementary evidence—the issue of match funding for EU Structural Funds to assist regeneration June 2011.
of various funds to maximise the impact of EU investments, with multi-fund programmes avoiding duplication and reducing administrative costs and burdens.

11. Local Enterprise Partnership areas, as functional economic areas, present an obvious geographical starting point for a devolved approach. Whilst LEP areas vary in size, overlap in some areas and do not necessarily cover the same areas as the NUTS2 regions used by the EU in determining ERDF funding eligibility, these ought not to be insurmountable problems, providing LEPs have the ability to work jointly on cross-boundary issues and come together in larger groupings to achieve critical mass and address broader regional issues where it is appropriate to do so.

Could the funds contributed to, and paid out on, regeneration through ERDF be spent more effectively by repatriating ERDF to the Government in London?

12. This depends on what is meant by “repatriating ERDF to the Government in London”. If it means effectively withdrawing from ERDF, whether or not this possible and what the wider implications would be, not least in relation to the other EU Structural Funds, is outside the scope of this memorandum of evidence. However, looking at ERDF alone, if it were to be repatriated there could be a real risk that it would disadvantage the process of economic regeneration and growth. The key advantage of ERDF as an EU funding stream is its guaranteed longevity. The seven year programming cycle provides continuity and facilitates strategic programming and the development time required for large-scale projects. It avoids the precipitous “dash for cash” that can be the case with shorter lived funds or those whose lifetime is uncertain. With repatriation there would be no guarantee of the repatriated funds being used to maintain a long-term funding approach to regeneration nor indeed that they would be applied to regeneration at all.

13. In our view, there is real benefit in retaining access to the European Regional Development Fund that focuses on tackling regional economic disparities, promoting employment and competitiveness and enables cooperation with areas in other Member States on issues of common interest. The current European Commission proposals for the next period of EU regional policy offer the prospect of assisting all parts of England and in particular through convergence and transition funding, providing potentially significant support to a substantial number of areas.

14. If repatriation means the centralisation of ERDF into a nationally focused and operated programme for England, we would be equally concerned. ERDF is a regional development fund that needs to be responsive to local and regional needs. A centralised approach with a national ERDF programme for England would risk losing the essential connection with local and regional priorities and be likely to lead to a prescriptive one-size-fits-all approach and result in duplication of areas of activity, stifling of innovation and dilution of effectiveness and value for money.

With the abolition of the Regional Development Agencies responsibility for ERDF in England passes to DCLG. What effects are these changes having on the administration, assessment and payment of ERDF?

15. The transfer of responsibility to DCLG took place in July 2011 and it is too early to make a full assessment of the impact of the changes on the administration, assessment and payment of ERDF and what the long term effects will be. We are aware that the number of specialist staff dealing with ERDF in DCLG is significantly less than the number involved when the RDAs had responsibility. Perhaps not surprisingly, we have received reports from member authorities of little change in the speed of the administrative process. We understand that an increased emphasis is being placed on compliance resulting in the claims process continuing to be onerous. As regards payments, we understand there is to be a move to a different process, which will need to be tested for efficiency.

CEDOS and ADEPT

April 2012

Written evidence from Professor Steve Fothergill

SUMMARY

— EU Structural Fund spending in the UK has a positive impact, but the measurement problems make it difficult to pin down just how much.
— The re-nationalisation of the Funds would bring benefits in reducing bureaucracy and allowing spending on regional aid to be tailored more closely to UK circumstances.
— The net financial gain to the UK of re-nationalisation, identified by Open Europe in their recent report, ultimately depends on net financial losses to other member states, notably Spain, Greece and Italy.
— Delivering re-nationalisation requires sufficient support from other EU member states, which seems unlikely so long as there are large potential net losers.
— Promises from the Westminster government to compensate the regions for any loss of funding from the EU are inherently weak and doubly questionable in an era of public spending cuts.
THE “RE-NATIONALISATION” PROPOSAL

This submission focusses exclusively on the arguments for and against the “re-nationalisation” of EU regional policy.

The case for re-nationalisation was first put forward by the UK government in a 2003 document published by the Treasury. In its original form, set out by the Treasury and broadly supported by Open Europe, the argument is that in the richer EU member states—usually defined as those with a GDP per head of at least 90% of the EU average—funding from the EU Structural Funds should no longer apply. Instead, member state government should take over full financial responsibility for supporting development in their own regions. The UK, as one of the EU’s richer member states, is one of the countries to which this new arrangement would apply.

The underpinning argument, put forward by the Treasury, was that it is inefficient to send UK taxpayers’ money to Brussels, where it is then routed back to the UK as aid from the European Regional Development Fund (ERDF) and the European Social Fund (ESF). The Treasury argued that this introduced unnecessary bureaucracy and constraints. Under the Treasury proposal, the UK and other rich member states would continue to contribute financially to regional development in the poorer member states, where the Structural Funds would continue to operate on the same scale, but the overall EU budget (and thereby the UK’s financial contribution) would be reduced.

The Treasury also proposed that, if the EU were to adopt re-nationalisation, the UK government would guarantee that replacement funding from the Exchequer would ensure that none of the regions and countries of the UK would be left financially worse off. The aim, in other words, was not to reduce overall spending on regional policy.

Open Europe has subsequently elaborated on the Treasury’s 2003 proposals by generating calculations which suggest that if the re-nationalisation proposal were adopted the Treasury would benefit substantially, not only from the return of funds targeted at the UK but also because the UK would no longer be subsidising regional development in other rich EU member states.

There are several distinct aspects to the re-nationalisation proposal that need careful consideration.

Does ERDF funding work?

The first is the argument, not necessarily endorsed by the Treasury but certainly aired by Open Europe, that regional aid from Europe simply doesn’t work. Accordingly, the EU funds would be better off returned to member states, such as the UK, who could spend them better.

It is certainly true that the academic evidence on the effectiveness of the EU Structural Funds is patchy and at times even contradictory. But this does not mean that the funding is ineffective. A very great complication is disentangling exactly what would have happened in the absence of EU spending: it is the difference between what would have happened and what actually happened that is the proper measure of the policy effect. In the EU context the problem is that a great many other things are happening simultaneously—national economic policy, members states’ own regional policies, and underlying regional and locational trends for example. This renders the accurate identification of a policy effect nigh on impossible.

An alternative way of looking at the issue is that it is simply counterintuitive that such a large amount of regional funding over such a long period has had no positive effect. Across the UK regions there are many substantial projects that have been co-financed by the EU, some of which have played a pivotal role in local and regional regeneration. It is naïve to suppose that most or all of these would have gone ahead anyway, or that public investment has merely crowded out private spending.

What is really at issue is just how effective EU funding has been, and therefore the extent to which it represents value for money compared to alternative UK regional spending.

Would re-nationalisation deliver operational gains?

The argument that the re-nationalisation of EU funding would reduce bureaucracy and lead to spending decisions that are better tuned to UK circumstances is hard to counter.

There is substantial complexity in routing funds for the UK regions via Brussels. The process entails the maintenance of a substantial managing bureaucracy in Whitehall, the devolved administrations and the regions, and to a lesser extent in Brussels (where EU funding to the UK is run by a surprisingly small team).

More importantly, perhaps, routing funds via Brussels means that they come back with strings attached. There are limits on where the funds can be spent and what they can be spent on. These limits increasingly reflect EU-wide priorities and, looking ahead, the Europe 2020 agenda. In the next EU funding round for example, beginning in 2014, the Commission’s intention is that the vast majority of the ERDF funds available...
to the UK will have to be spent on just a handful of objectives: the low-carbon economy, energy efficiency, innovation and SMEs. In addition, EU rules require substantial matching contributions from domestic sources—usually a minimum of 50%—and limit the extent to which funds can be handed over directly to private, profit-making companies.

If the same amount of funding was to be spent on regional policy by the UK government and the devolved administrations it would probably be spent in different ways on different priorities.

On the other hand, if the money were to come directly from London and the devolved administrations there would still be the requirement for a bureaucracy to manage it all. And some of the gap left by the withdrawal of EU funding would need to be filled by UK spending on the same things.

Furthermore, contrary to assertions in the Open Europe report, there has always been competitive bidding for ERDF funds in the UK, a process managed these days by the Local Management Committees. If in recent times there has been a clamour simply to “get funding out of the door” this is primarily because sources of matching finance have been drying up in an era of public spending cuts.

What about the financial gains?

Open Europe’s calculations indicate that just about all of the UK’s poorest regions are net contributors to the EU Structural Funds, even though they often receive significant sums in regional aid from Brussels.

This is correct. It is the result of the UK being a net contributor to the Structural Funds as a whole, which primarily support the poorer EU member states of Central and Eastern Europe. The re-nationalisation agenda, in the form put forward by the Treasury in 2003 and supported by Open Europe, would maintain this spending in the poorest member states, so the UK would remain a net contributor.

However, Open Europe’s calculations also suggest that if re-nationalisation were to occur the Treasury would benefit not only from the repatriation of funds targeted at the UK but also from ending the UK’s subsidy to regional development in other rich member states. These sums are substantial. Open Europe calculate that in the 2007–13 spending round they would have been worth £8.7 billion and £4.6 billion respectively.

Open Europe’s figures are rather misleading here. If, as the Treasury proposed, the money spent on regional policy were to be maintained at the same level, the £8.7 billion returned from Brussels would not leave the Treasury with any more money. Only the £4.6 billion would be a net gain to the UK. And this is before allowing for the UK rebate, which in broad terms reimburses the UK for two-thirds of the difference between its financial contribution to the EU and what it receives back. So after the rebate the net benefit to the Treasury would be reduced to a little over £1.5 billion—nevertheless still a substantial sum.

The £4.6 billion is not in any way an “efficiency gain” from re-nationalisation. It is a straightforward redistribution between EU member states. Just as Open Europe identifies the UK as a potential net winner it also identifies net losers, notably Spain (£21.4 billion), Greece (£17.0 billion) and Italy (£8.5 billion).

Furthermore, the £4.6 billion is not a fixed sum that would apply for example in the forthcoming 2014–20 spending round. In practice the financial allocation from the Structural Funds to each member state depends on a complex array of factors including the overall budget, the allocation between different EU funding “strands”, the GDP figures for a member state’s own regions, and the GDP figures in other member states. It cannot be assumed that the UK would always remain a net financial beneficiary from re-nationalisation.

Is re-nationalisation deliverable?

The European Commission can be expected to oppose re-nationalisation, since it would represent an erosion of its power and influence. The European Parliament too can be expected to oppose such a move, since the Parliament usually dislikes attempts to weaken the European project. The initiative for change would therefore have to come from member states, through the Council of Ministers.

To achieve progress the majority of EU member states, including big players such as France and Germany as well as the UK, would need to back re-nationalisation. This is not inconceivable. The poorest member states in Central and Eastern Europe would have nothing to lose because their receipts from the Structural Funds would be protected. And a number of richer member states might be persuaded to share the UK position, especially if the result did not leave them financially worse off.

The stumbling block, however, is always likely to remain the net financial losers—identified principally as Spain, Italy and Greece in the Open Europe calculations. It is hard to imagine that any of these three countries would welcome a very large net financial loss, especially bearing in mind the current state of their public finances. They would expect something major in return. If they were compensated financially in some way for their loss, the net financial gain of re-nationalisation to other member states (such as the UK) would of course be reduced accordingly.
What about guarantees to the UK regions?

As noted earlier, an integral part of the package proposed by the Treasury in 2003 was that the UK countries and regions should be compensated in full for the loss of EU funding. Open Europe also supports this position. The aim was not to reduce the funding of UK regional policy.

Unfortunately, financial guarantees to the UK regions are inherently problematic.

Back in 2003, the then Labour Government appeared deeply committed to regional development and to the success of its new RDAs. There was every reason to believe that the guarantee was sincere. However, this did not convince all the key players in the regions, including many local authorities. There are three main problems with any “guarantee” of this kind.

First, EU spending rounds (usually seven years) are much longer than UK public spending rounds (three or four years). It is therefore inherently difficult for UK governments to offer a meaningful financial guarantee that extends beyond the end of any given UK spending round (at present, beyond 2015).

Second, general elections intervene. There is no certainty that a guarantee will be honoured by a new government from a different party. The general election in 2010, for example, came midway through the 2007–13 EU spending round. It would have been highly surprising if financial guarantees to the regions offered by Labour had been carried forward, especially against the backdrop of the Coalition’s commitment to large reductions in public spending.

The third problem is that, under the devolution settlement, it is impossible for Westminster to tie the hands of the governments in Edinburgh, Cardiff and Belfast. Regional development is a devolved matter, and though Westminster might hand over extra cash to compensate for the loss of EU funding there could be no binding obligation on the devolved administrations to spend the money on regional development.

The fear has therefore always been that if the regional funding does not come from Brussels, the overall spending on regional development will eventually, through one mechanism or another, be reduced. The fear seems well-founded, and hard to head off.

In practice, the accession of the Coalition government in 2010 has probably killed off residual hopes that any loss of EU funding to the regions would be fully offset by UK government spending. This is not in any way because of party political differences. Rather, local authorities and others recognise the immense pressure to reduce the public sector deficit, and they note the Coalition government’s abolition of the English RDAs. The Regional Growth Fund has been welcome, but overall spending on the regions is lower now than before 2010. The assumption is that at least a substantial part of any reduction in EU spending in the UK regions would be retained by the Treasury.

Conclusions

Whilst the re-nationalisation of the EU Structural Funds in richer member states has significant attractions, not least in reduced bureaucracy and greater flexibility to meet UK needs, it not necessarily realistic politics at the present time.

The UK could not bring about this change unilaterally. It would require the support of other member states and, so long as there were potential net losers, the support would not always be forthcoming. Nor would the UK itself necessarily end up a large net financial beneficiary from re-nationalisation.

Within the UK too, strong opposition to re-nationalisation can be expected from the recipients of EU funding, who in the current context of public spending constraints would have little confidence in any guarantees of alternative funding from the UK Exchequer.

Prof Steve Fothergill
24 April 2012

Written evidence submitted by Open Europe

Open Europe recently produced a detailed briefing looking at the effectiveness of the EU’s structural and cohesion funds, including the European Regional Development Fund. The Cohesion fund is reserved for less wealthy member states while UK regions are also eligible for funding from the European Social Fund. As such figures on UK and UK region receipt/payments factor in all three funds.

The full report is accessible here:

http://www.openeurope.org.uk/Content/Documents/Pdfs/2012EUstructuralfunds.pdf

Below is a slightly modified version of the executive summary from our report:
— In 2003, the then UK Chancellor, Gordon Brown, said that the time was ripe to “bring regional policy back to Britain.” However, the Coalition has dropped the previous Labour Government’s commitment to devolve regional spending back to the UK and to focus EU structural funds exclusively on the less developed EU member states.

— Over the 2007–13 EU budgetary period, the UK is contributing roughly £29.5 billion to the EU’s structural and cohesion funds, and getting back around £8.7 billion, making it the third largest net loser from the funds, after France and Germany.

— The structural funds can have a positive impact in individual cases if combined with good public administration and pro-growth policies, as the example of Ireland in the 1990s shows. However, there is no conclusive evidence that the structural funds have had an overall positive economic effect on Europe’s economy. There are still a number of problems with the funds, including an unsatisfactory correlation between funding and results. (The annex to the report contains an extensive literature review on this subject)

— Most fundamentally, involving all member states in EU regional spending, irrespective of their relative wealth, is economically irrational. As the Commission itself has admitted, this exercise creates “considerable administrative and opportunity costs”.

— Firstly, it can channel funds away from where they can have the most comparative impact, as richer member states already attract investment, which, at worst, can be crowded out by the structural funds. Secondly, in richer member states, the structural funds mostly serve to redistribute income within the same regions. We estimate that of the UK’s overall contribution, 70% goes to other member states, only 5% is redistributed across regions, with the remaining 25% being redistributed within the same region in which the funds were raised. See graph:

This begs the question what the added economic value of the structural funds is for Britain. (This is a key finding which undermines the premise that there is any added value in having regional policy financed and administered at the EU level at least for wealthier member states):

— Of the 37 regions in Britain under the EU’s classification system, 35 are net contributors to the structural funds, with only West Wales and Cornwall net beneficiaries. This means that some relatively poor areas lose out substantially. For example, we estimate that the West Midlands, which has the lowest disposable income per capita in the UK, pays £3.55 to the structural funds for every £1 it gets back. Merseyside, which has a disposable income of 88% of the UK average, pays in £2.88 for every £1 it gets back. All the regions in the North East pay in more than they get back, as does Northern Ireland (£1.58 for every £1 it gets back). All sub-regions in Scotland are likewise net losers from the structural funds. I’ve separately attached a table showing payments and receipts for each one of the UK’s 37 NUTS II regions.

— Some regions that are under the UK average for disposable income per capita pay far higher contribution ratios than those above the average; for example Devon (94% of the average) pays £6.58 for every £1 it gets back, while Herefordshire, Worcestershire and Warwickshire (105% of the average) pays £4.49.
— As proposed by the previous Labour Government, limiting the funds to EU member states with income levels at 90% or below the EU average could create a win-win situation. Such a move would instantly make the funds easier to manage and tailor around the needs of the poorest regions in the EU. We estimate that 22 or 23 out of 27 member states would also either pay less or get more out of the EU budget, as the funds would no longer be transferred between richer member states. This option could therefore attract strong political support in many capitals.

— Devolving regional policy should involve the Coalition promising to ring-fence the £8.7bn that it currently receives via the EU’s structural funds for continued regional and regeneration spending around Britain. In addition, it could pledge to re-invest its projected saving of up to £4.2 billion under the 90% threshold back into regional development. This would mean that virtually all UK regions would experience a rise in the amount of subsidies they receive by around 45%. For example, Cornwall could get an additional £207 million over seven years under such an arrangement. I’ve separately attached a table showing how much extra each region would get under our proposals.

— Finally, the UK must also ensure that it replaces the structural funds with something that works radically better. This could include adding a second pillar to the existing Regional Growth Fund which would see potential projects competing for an enhanced pot of cash. Rather than the current raft of, at times contradictory, objectives, the disbursement should be more heavily premised on which project has the strongest business case. The focus would be on results, rather than getting the money out of the door, as is often the case at present.
## UK Regions’ Net Contributions to the Structural Funds

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Sources: European Commission, Eurostat, ECB, Open Europe calculations
### UK REGIONS’ GAIN FROM BRINGING REGIONAL POLICY BACK HOME

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**Written evidence submitted by the Department for Communities and Local Government**

**Summary**

— Since 1994, England has benefited substantially from the European Regional Development Fund (ERDF), with around £8 billion being allocated to support economic development and growth.

— ERDF has supported the creation and safeguarding of thousands of jobs; small and medium enterprises; development of business premises; and reclamation of brownfield land; and created a substantial increase in the value of goods or services produced in each area (also known as Gross Value Added).

— ERDF has supported some high profile projects such as the Manchester Tramlink and the Eden Project in Cornwall, as well as community economic development projects in deprived areas and a range of financial engineering instruments supporting small businesses.

— During the 2000–06 programme, the benefits of ERDF were put at risk by poor management by the then administrative arrangements which resulted in liabilities totalling £236 million on the 2000–06 programmes and a payment suspension by the European Commission on the 2007–13 ERDF programmes.

— Since the management of these programmes was brought in to the Department in 2011 we have succeeded in reducing the 2000–06 liabilities to less than £50 million and the error rates during 2011 for the 2007–13 programmes to significantly below the European Commission’s material threshold of 2%.
All ERDF programmes met their 2011 spending targets and, with a good pipeline of projects coming through, some 93% of the total allocation has been contracted or is awaiting contracting.

We have also recognised the value and importance of local ERDF programmes by giving local public bodies, and organisations, including voluntary groups and small and medium businesses an increased role in deciding on projects by giving them places on the recently created Local Management Committees.

These local partners have expressed support for the increased role we have enabled them to play in the 2007–13 programmes.

However, there are constraints on what can be done by the complex bureaucracy imposed on ERDF programmes by the European Commission Regulations. We are and will be seeking ways of streamlining and simplifying this for the 2014–20 round of programmes.

**ERDF and economic growth: how, and on what, is ERDF spent?**

1. The European Regional Development Fund is aimed at reducing economic disparities between and within Member States.

2. From the current, 2007–13 programming period, England has been allocated €3.3 billion (around £2.8 billion). This is spread across 10 regional Operational Programmes, comprising one Convergence area (ie. those most in need) in Cornwall and the Isles of Scilly and nine Regional Competitiveness and Employment Operational Programmes, covering the remainder of England.

3. DCLG is the Managing Authority for English ERDF programmes. Their day to day management is delivered through local Programme Delivery Teams which are located within each Operational Programme area, except for London, where the Greater London Authority has responsibility for their management.

4. Applications for ERDF can come from a range of organisations, including local authorities, universities and colleges and the private and voluntary sector. They are appraised in line with the agreed project selection criteria for that particular Operational Programme and endorsed by the relevant Local Management Committee (LMC) or sub-committee.

5. ERDF generally contributes up to 50% of the eligible costs of a project. The remaining 50% has to come from match funding which must be found by the applicant and can come from a range of public and private sources.

6. The 2007–13 ERDF programmes in England have the following main priorities:

   — Innovation and knowledge-based economy, including developing a supportive environment for innovation; creating incentives for businesses to invest in research and development; promoting technology transfer and commercialising of research; encouraging the use of renewable energy and promoting greater energy and resource efficiency; and the development of new, environmentally friendly technologies;

   — stimulating enterprise and supporting successful businesses, including providing business support for Small and Medium Enterprises to help them start up and grow; providing the necessary infrastructure for enterprise (for example business sites and facilities to help businesses develop and expand); supporting the development of business clusters and those with growth potential; and helping businesses to exploit opportunities and enter new markets;

   — ensuring sustainable development, production and consumption, including increasing innovation and adaptability in the use of natural resources; promoting take up and usage of low carbon sources of energy and greater efficiency in the use of energy; making links between a better quality environment and tackling social and economic disadvantage; and assisting businesses to become more profitable through resource efficiency savings; and

   — building sustainable communities, including promoting social enterprises; developing local connections, particularly in deprived areas, to increase access to opportunities, employment and public services; regenerating and increasing the attractiveness of areas suffering from severe, social, economic and environmental deprivation; and redeveloping brownfield land where it can support economic and social regeneration.

7. Annex 1 sets out detailed figures showing the amount of ERDF contracted so far during the 2007–13 programming period. Programmes have until the end of 2015 to complete their spending:

   — **Science City York (Yorkshire and Humber):** This funds a major expansion of York University, to provide opportunities for working with businesses. An investment of £19.75m is directly promoting innovation and economic growth, specialist grow-on space for Small and Medium Enterprises (SME) and Research and Development collaboration.

   — **Environmental Technology Centre, East Midlands:** With rising energy prices and pressure on resources, environmentally efficient technologies and practices save businesses money. This project of £1.05m provides consultancy advice, including environmental assessments, to help businesses improve their overall competitiveness and performance by increasing their environmental efficiency.
Is the taxpayer obtaining value for money from the ERDF?

8. English ERDF programmes are designed to deliver growth and jobs. As at October 2011:
   — Gross jobs created 8,700; additional gross jobs safeguarded 16,462.
   — Support was provided to enable 2,813 businesses; 4,945 Small and Medium Enterprises and 374 Social enterprises start up or expand.
   — Gross increase in the value of goods or services provided by each area, or Gross Value Added, (£) 124,201,741 and Net increase in Gross Value Added, (£) 907,100.
   — Brownfield land brought into use 15.42 hectares.
   — Business premises developed 2,713 sq m and New or upgraded business floorspace 19,781 sq m.

   It is worth remembering that ERDF projects tend to deliver outputs towards the end of the programming period. This is particularly the case with the fewer, larger, more strategic projects which have been encouraged during the 2007–13 programming period. Consequently, as the programmes have until the end of 2015 to complete spending, these outputs will increase considerably by the end of the period:

   — **The Wavehub Energy, Cornwall:**
     This is an investment of £20m ERDF in a groundbreaking renewable energy project. It aims to provide the world’s first offshore facility for the large-scale testing of wave energy devices, potentially generating enough electricity for 7,500 homes and helping to tackle climate change.

   — **Enterprise Bradford (Yorkshire and Humber):**
     An investment of £4.6m ERDF in this project helps to unlock the potential for communities to create new business and enterprises in the most deprived parts of Bradford. Work with the third sector organisations will help them identify opportunities for growth and to be in a position to take projects to tender. In Halifax, the project will link established companies to emerging community businesses and social enterprises in a mentoring programme.

9. All English ERDF programmes have met their 2011 spending targets and there is a good flow of projects coming forward and awaiting approval. The table at Annex 1 shows the current position for each English programme and that 93% of the funding has either been contracted or is awaiting contract. So we foresee little risk of funds needing to be returned to the European Commission (EC).

**With the abolition of the Regional Development Agencies responsibility for ERDF in England passes to DCLG. What effects are these changes having on the administration, assessment and payment of ERDF?**

Transition from RDA to DCLG management of ERDF 2007–13 programmes

10. Following the decision to abolish the Regional Development Agencies (RDA), DCLG took over responsibility for the day to day management of ERDF Operational programmes in England on 1 July 2011. To ensure that the expertise and experience of the ERDF teams was retained and to ensure that focus was not lost, it was decided that as many as possible of the staff originally employed by the Regional Development Agencies, should remain located within the OP areas as Programme Delivery Teams.

11. The European Commission, which was initially sceptical about the new management arrangements has recently complimented the Department on the way the process has been managed. The transition has been successfully carried out without compromising delivery, and has given an opportunity for tightening the administration of the programme.

12. At the time of transfer, the programme was at risk of missing some of its spending targets. However under DCLG’s direct management, all individual ERDF programmes achieved their annual 2011 spending targets, ensuring that the money has been spent for the benefit of local communities and not returned to the EC unspent. The Department has managed the programme closely to raise rates of spending where necessary (such as in the Yorkshire and Humber, where programme spend accelerated from around £5 million per month in June to over £20m per month in November and December).

13. As Annex 1 shows, projects with match funding have continued to come through. This reflects both the local knowledge and experience of the Programme Development Teams, and the extra opportunities made available by the Government through sources of investment such as the Regional Growth Fund, the Growing Places Fund, Broadband UK, Business Coaching for Growth, UK Trade International and the Manufacturing Advisory Service. The programme is now 93% either spent, committed or in pipeline with more than 18 months still to go.

14. The Department has also tightened up on the administration of the programme. This year’s report to the European Commission (the Annual Control Report) showed an error rate of 1.57% for 2011, well below the materiality rate of 2% at which the European Commission could decide to impose financial corrections. We have:

   — Standardised the previous set of 8 different business processes across Programme Development Teams so that we have confidence the same controls are in place right across the programme;
— Strengthened the financial control verifications carried out on individual projects during the lifetime of programmes by Programme Development Teams with a new and tighter format; Contracted the auditors Moore Stephens to carry out checks on the highest risk projects so that errors can be detected before money is claimed back from the European Commission. 100 projects have already been checked and another 50 are being checked currently;
— Designed and implemented a process for closing projects well ahead of time so that we can deliver programme closure effectively from 2015; and
— Started work to improve the controls on the Interreg programme in the same way.

15. The result is that the Commission have said they are very satisfied with the way the programme is being run and have lifted the interruption they imposed in March 2011: in other words refusing to reimburse the UK Government for money advanced to projects. This means that cash continues to flow to the areas where it is most needed.

16. This strengthening has been carried out in tandem with increasing local control over the programmes. Governance has been reorganised to bring in greater representation from Local Enterprise Partnerships, local businesses and local authorities with the aim of ensuring that the Local Management Committees understand the criteria for running ERDF programmes and that decisions are truly rooted in local needs so that they can get the most out of them for their areas:
— IDEAS (Innovation Design Entrepreneurship And Science) @ Daresbury (North West):
  Innovation is crucial to growth, and to make it happen there needs to be effective interface between cutting edge research and the ability to bring ideas to market. An investment of £385,000 ERDF is dedicated to promoting effective knowledge exchange between SMEs, large corporations, universities and science.
— Epic: Lincolnshire, (East of England):
  The construction of an innovative building complex that demonstrates sustainable technologies. Epic is an investment of £1.66m ERDF which demonstrates and disseminates the latest carbon reduction developments in building design; construction; usage of renewable energy and waste management. This allows the technologies both to be tested and demonstrated so that others can follow suit, saving money and protecting the environment.

Safeguarding public funds: sorting out the liabilities from ERDF 2000–06

17. The Government inherited major problems with the 2000—2006 ERDF programme from the previous administrative arrangements, including liabilities of £236m. Through a combination of negotiations with the European Commission and a determined effort at recovering outstanding debts, these have now been reduced to £41m. This represents a significant achievement and has reduced substantially the risk of qualification of the Department’s accounts.

18. Under the 2000—2006 Programme 20 English regional programmes were funded to a value of £7bn (£3.7bn ERDF). These supported over 6,800 projects creating 177,391 new jobs, assisting 207,662 Small and Medium Enterprises and supporting the delivery of nationally iconic projects such as:
— The award-winning Millennium Bridge and the Sage Conference Centre in Gateshead;
— Regeneration of Liverpool Docklands;
— Development of Liverpool’s John Lennon Airport; and
— The Eden Project in Cornwall.

19. The 2000–06 ERDF programme closed on 31st March 2010 when final closure documents were submitted to the European Commission for each of the 20 programmes. Since March 2010 the Commission has been undertaking a detailed process of scrutiny for each programme before issuing a Final Settlement Letter notifying the Department of the amount it intends to pay as part of the sign-off for each programme. DCLG have two months from receipt of each letter to decide whether to accept or challenge the Commission’s decisions before the programmes are formally closed.

20. Other notable successes have been:
— seven programmes formally closed (Peterborough Urban, Stockwell Urban, Derby Urban and Thames Gateway Urban South West Objective 2, East Objective 2 and Burnley Urban);
— European Commission acceptance of our arguments on some of the costs included and the proposed size of financial corrections in the Yorkshire and the Humber Objective 1 and 2 programmes resulting in a decrease in liabilities of £84 million;
— European Commission agreement to our methodology used to calculate the error rate penalty—a reduction of £12.25 million; and
— National Audit Office sign off of the Departmental accounts for the 2010–11 financial year without qualification.
21. The original 31 December 2012 date for the closure of the 2000–06 ERDF Programme could not be achieved as the Commission had not issued Final Settlement Letters or progressed open audits according to their indicative timetable. As a result, the end date for closure of the Programme is now set for 31 March 2013.

Could the funds contributed to, and paid out on, regeneration through ERDF be spent more effectively by repatriating ERDF to the Government in London?

Overall negotiating stance on EU budget

22. UK’s top priority is budget restraint, thereby ensuring that the EU Budget contributes to domestic fiscal consolidation. Growth and competitiveness (EU Budget Heading 1A), External Relations (EU Budget Heading 4) and Climate Change components of these headings are priority areas. While the UK’s overall objective is to restrain budget size, we consider that these areas should have a proportionately larger share of a restrained budget.

23. The UK is targeting a very substantial reduction in the size of the Common Agricultural Policy budget, with cuts focussed on Pillar 1, which includes direct payments to farmers. Very substantial reductions are also required in European Commission administrative spending.

24. The UK Government’s approach across the Budget is consistent with the overall freeze on spending. It is not asking for an increase in funding during 2014–20 for any area of the Budget, even in priority areas for the UK such as external action.

Repatriation of 2014–20 ERDF allocation

25. The UK is committed to improving the value for money of EU investment in cohesion policy, with a need to focus support on achieving economic convergence of the poorest Member States.

26. The budget for the Structural Funds will be decided through the negotiations on the Multi-Annual Financial Framework 2014–20. We expect these negotiations to finish in October 2012, in advance of the agreement of the Structural Funds Regulations.

27. Substantial savings could be made if all wealthier Member States, including the UK did not receive Structural Funds. However this would require agreement by all Member States during the negotiations on the 2014–20 budget. The argument was not successful in the negotiations for the previous period 2007–13.

28. Given the required time for adjustment—particularly in this difficult financial climate—wealthier states should continue to receive funding during the 2014–20 period, but allocations in richer areas, particularly in the richer Member States, should fall significantly.

29. The UK Government’s response in January 2011 to the European Commission’s fifth Cohesion Report, which set out its initial proposals for European funding during 2014–20, called for greater flexibility for Member States to design their national and regional architecture for delivering the Funds, a reduction in the administrative burdens on Member States as a result of the complex bureaucracy imposed by the Commission, a concentration of funds on poorer Member States, a smaller Structural Funds budget and greater use of loans and financial engineering instruments, such as venture capital funds.

30. The European Commission published the draft Regulations covering 2014–20 in October 2011 and work is now ongoing to negotiate the detailed measures within this. For DCLG, the areas of most interest are those that will shape the geographic and thematic options to ensure that funding is targeted on local growth and the detail of the management and control regime within which ERDF will operate. Details are set out at Annex 2.

31. The next key stage will be consultation on the document that will establish the strategy for all programmes across the EU in 2014–20, the Common Strategic Framework, which was published in March 2012. This stage is important because it will define the key activities that each Fund (including ERDF) will be able to support.

32. The Common Strategic Framework will inform the national business plan (“Partnership Contract”) for Structural Funds in the UK in 2014–20 that the Department for Business Innovation and Skills will prepare and consult on. The consultation on the Partnership Contact will happen in the first half of 2012 and is expected to be completed by June 2012. The Partnership Contract will set out the various Operational Programmes that will apply in England and the Devolved Administrations, programme targets, thematic priorities, cities selected for specific measures, and administrative arrangements.

33. The business of detailed programme development will begin in earnest once the UK’s Partnership Contract has been agreed with the European Commission. This process will begin in September 2012 and look to conclude as regards agreement of programmes with the European Commission by June 2013. The final half of 2013 will be spent fine-tuning administrative and partnership arrangements and the formal adoption of programmes by the European Commission in readiness for go-live in January 2014.
Repatriation for future rounds of Structural Funds

34. The UK position is that after 2020, wealthier Member States, including the UK, should not receive Structural Funds.

CONCLUSION

35. Local growth is the top priority for this Government. ERDF is key to helping achieve that priority. Lessons have been learnt from the past, and administrative errors made under the previous arrangements—which we inherited—corrected. The administration of ERDF has been constructed so that it is fit to deliver the jobs and growth essential to the future economic health of the country.

DCLG

April 2012

Annex 1

COMMITMENTS AND PIPELINE** AS AT JANUARY 2012 (SOURCE: MANAGEMENT INFORMATION PROVIDED BY PROGRAMME DELIVERY TEAMS)

<table>
<thead>
<tr>
<th>Programme</th>
<th>Total ERDF allocation (£m)</th>
<th>ERDF formally contracted (£m)</th>
<th>% ERDF formally contracted</th>
<th>% ERDF formally contracted plus projects awaiting contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cornwall and Isles of Scilly (Convergence)</td>
<td>394.91</td>
<td>289.66</td>
<td>73.35</td>
<td>100.00</td>
</tr>
<tr>
<td>Regional Competitiveness</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North East</td>
<td>325.90</td>
<td>202.89</td>
<td>62.27</td>
<td>87.82</td>
</tr>
<tr>
<td>Yorkshire and Humber</td>
<td>504.90</td>
<td>273.58</td>
<td>54.19</td>
<td>106.27</td>
</tr>
<tr>
<td>North West</td>
<td>658.32</td>
<td>443.60</td>
<td>67.39</td>
<td>84.89</td>
</tr>
<tr>
<td>Yorkshire and Humber</td>
<td>504.90</td>
<td>273.58</td>
<td>54.19</td>
<td>106.27</td>
</tr>
<tr>
<td>West Midlands</td>
<td>345.00</td>
<td>208.15</td>
<td>60.35</td>
<td>93.58</td>
</tr>
<tr>
<td>East Midlands</td>
<td>232.00</td>
<td>131.00</td>
<td>56.47</td>
<td>87.49</td>
</tr>
<tr>
<td>East of England</td>
<td>96.06</td>
<td>68.66</td>
<td>71.48</td>
<td>88.42</td>
</tr>
<tr>
<td>South East</td>
<td>20.52</td>
<td>12.97</td>
<td>63.21</td>
<td>88.03</td>
</tr>
<tr>
<td>South West</td>
<td>107.45</td>
<td>58.55</td>
<td>54.50</td>
<td>100.00</td>
</tr>
<tr>
<td>London</td>
<td>158.42</td>
<td>111.12</td>
<td>70.13</td>
<td>96.80</td>
</tr>
<tr>
<td>Total*/Average**</td>
<td>2.843bn*</td>
<td>1.792bn*</td>
<td>63.05**</td>
<td>92.86**</td>
</tr>
</tbody>
</table>

**The definition of “projects awaiting contract” varies slightly between programmes, but it is generally applied to projects which have submitted either an outline or full application, which has yet to be formally approved. Projects are required to identify their sources of match funding and include them in the application for European Regional Development Funds before they can be included under this heading.

Annex 2

DRAFT EC REGULATIONS COVERING THE 2014–20 PROGRAMMING PERIOD

1. The main proposals in the draft Regulations from an ERDF programming and management context are:

   — **Common Strategic Framework**: An EU level “investment policy” to deliver Europe 2020 governing EU Regional Development, Social, Cohesion, Rural Development and Fisheries Funds.

   — **Partnership Contract**: A national “business plan” for investment of EU public funds based on the Common Strategic Framework. All national delivery partners to be bound by the contract, which will regulate payments.

   — **Funding**: to be dependent upon fulfilment of macro-economic, thematic and administrative “conditionalities”, with payments linked to results. 5% “performance reserve” to reward good performance.

   — All regions to receive funding in relation to three categories (based on NUTS II boundaries):
     — **More developed** (regions >90% of EU average GDP per capita—most of UK);
     — **Transition Regions** (regions 75%—90%); and
     — **Less Developed** (regions <75%).

   — **No Member State to receive less than 55% of current allocation**: (2007–13). Regions moving from Less developed to Transition status to retain at least two thirds of current allocation.

   — **Rules simplified** and harmonised, with strong emphasis on strong management controls and performance monitoring but proportionate administration and audit.
Programmes to focus on innovation, SME competitiveness, shift to low carbon economy, ICTs, sustainable transport, employment, skills & combating social exclusion. More innovative “financial engineering instruments” (eg revolving loan funds) involving European Investment Bank: fewer grants/more loans.

“Earmarking” of funds for specific actions: including >5% for integrated sustainable urban development programmes.

Supplementary Question and Answer briefing

What is the Government’s position on the introduction of the transition category of funding for countries with 759–0% of the European Union average Gross Domestic Product per capita? (Q77)

A key priority for the UK is EU budget restraint and as such to keep our contributions to the EU budget as low as possible. In addition the UK believes that Structural Funds should focus on stimulating economic development in the less wealthy Member States. The introduction of a category for Transition regions, as proposed by the Commission, goes against this principle.

The UK Government is not convinced of the added value of Transition regions on the basis of their affordability within the EU budget. The recycling of funds between Member States with the capacity to finance their own regional development policy is not the best use of the EU budget and we need to guard against a potentially over-generous system which proposes to award some regions proportionately more than others.

The UK Government believes that those regions graduating from the convergence objective should benefit from enhanced support but believes that the proposed 2/3 safety net is too generous. The allocation should also be progressively reduced over the period 2014–20.

Is the Government in favour of giving Local Enterprise Partnerships greater control over ERDF programmes? (Q93)

The Local Enterprise Partnerships already play a role in the management and delivery of European Regional Development Fund programmes, through their role as members of the Local Management Committees. They can also use their expertise to advise potential applicants on developing good quality projects.

Members of the Partnership can also apply for support from the European Regional Development Fund. As part of the broader UK-wide discussions around the content and delivery of the next round of programmes, we are considering options for carrying out the day to day management of the 2014–20 round of English programmes and the possibility of giving the Local Enterprise Partnerships a role in this process is one of the options under consideration.

Will the Government consider top-slicing the Regional Growth Fund to provide source of match funding for ERDF? (Q118)

Out of the total allocation of £2.843 billion for English European Regional Development Funds programmes, some £2.64 billion has either been contracted or is awaiting contract. In view of the range of other central Government and public and private sector sources available, we do not consider that it will be necessary to top slice funding from the Regional Growth Fund to make up the outstanding £200 million.

Furthermore, it is already possible for the Regional Growth Fund to be used as match funding for ERDF without the necessity for top-slicing.

How does the Department monitor the outcomes, as well as the inputs, of ERDF projects? (Q129)

During the 2000–06 round of ERDF programmes, we found that the output and result indicators used by programmes were inconsistent and it was difficult to compare programmes or aggregate the outputs and results achieved.

For the current, 2007–13 round of programmes we produced a Manual for the Intermediate Bodies running the programmes. The purpose of this was:

— to provide the detailed definitions for the ERDF Programme 2007-core outputs and outcomes/results indicators;
— to provide a set of manageable, reliable, measurable indicators of good quality which can be used to compare or aggregate data across programmes or for thematic analysis;
— to provide basis for reporting outputs and outcomes/results by beneficiary characteristics disaggregated by spatial levels (rural/urban and disadvantaged areas);
— to bring together the definitions, verification evidence and FAQs in one document; and
— to provide an indicative list of ERDF impact indicators which informed the final selection
within each Operational Programme.

We are therefore able to monitor a consistent range of indicators at programme level and aggregate them
where needed.

At a local level the ERDF governance framework has a Local Management Committee (LMC) made up of
local partners and chaired by a Director from DCLG with a Deputy Director chosen from the locality. Each
ERDF Programme is different defined around local priorities and the LMC structure responds to this need. The
LMC structure provides a local assessment framework before projects get approved and a strong committee
overseeing the programme monitoring “value for money” and looking at the outputs and results on a quarterly
basis, such as business floor space, jobs, SMEs assisted to innovate and grow, low carbon and land reclamation.

Please update the Committee on any proposals the Department makes to the European Commission aimed at
simplifying the various EU funding streams. (Q1391–41)

In the UK Government’s response to the 5th Cohesion Report we said that the Government strongly supports
further simplification of the rules governing the Structural Funds in order to minimise the administrative
burdens on grant recipients and national authorities. Core principles which should guide the design and
implementation of future programmes include:

— No additional costs imposed on grant recipients or administrations unless they can be fully
justified.
— Greater emphasis on outcomes (allowing Member States more flexibility and discretion in the
manner of implementation) and less emphasis on process.
— A risk-based approach to controls that takes account of recipients good track records and their
robust control systems.
— Greater proportionality of controls and penalties in relation to the scale of projects.
— Full transparency and clarity of roles and responsibilities from the outset.

Many of the rules that will govern the ERDF in the 2014–20 are set out in the draft Commons Provisions
Regulation, published in October 2011 that also set general rules for the European Social Fund and the
Cohesion Fund, as well as to a more limited extent the European Agricultural Fund for Rural Development
and the European Maritime and Fisheries Fund. The Commission has set out some useful proposals, for
example on simplified cost options that will limit the amount of documentation that needs to be supplied.
However, we believe there is scope to go further, particularly in ensuring a proportionate approach to issues
such as audit and in making the rules as simple as possible where projects draw money from more than one
funds. We are pushing these points in the current negotiations.

Why has the Government opposed the Commission’s proposals to ring-fence parts of ERDF, such as 5% for
sustainable urban areas? (Q141)

As our work with core cities has shown, we do believe cities can make a powerful contribution to economic
growth. We therefore support the opportunity offered in the new Structural Funds programme to allow Member
States to adopt a special focus on cities. Cities will be able to play more of a leading role in shaping bespoke
and integrated programmes which play to their assets and address their barriers to growth.

However, the UK does not support the proposal to delegate 5% of ERDF spending for management by cities
through integrated territorial investments on sustainable urban development. We believe this is too narrow and
may hamper the ability of cities to deliver integrated projects in areas of SMEs and innovation. There are
other, possibly more effective ways to involve cities in programming without having to resort to using
integrated territorial investments.

What is the Government’s position on conditionality for Structural Funds? (Q148)

It may be helpful if I set out the types of conditionalities that the Commission has proposed. These fall into
three categories—thematic and general ex-ante conditionalities, ex-post conditionalities and macroeconomic
conditionalities.

Ex-ante conditionalities

Thematic conditionalities are preconditions that need to be met before structural funds can be spent on
particular objectives such as innovation, ICT and enterprise. General conditionalities refer to horizontal issues
such as gender equality and compliance with state aids and procurement legislation.
The UK Government wants to ensure effective and efficient delivery of Structural Funds programmes, so that tax payers’ money is spent effectively. The UK therefore supports ex ante conditionalities that improve the effectiveness of the funds, but they need to be necessary for delivery of objectives, be proportionate, respect subsidiarity and be clearly set out in the regulation—and not left open to interpretation.

At the General Affairs Council on 24 April, Member States agreed safeguards to address the concerns the UK had, ensuring that principles of subsidiarity and proportionality were reflected and that there was a robust and fair process for assessing compliance with the conditionalities. Although these still need to be agreed with the European Parliament, they provide a basis for planning future programmes and the Partnership Agreement. We are now working with stakeholders, such as the Technology Strategy Board, to understand what this would mean in practice. Our initial view is that the UK should be able to meet all the ex ante conditionalities at present.

Ex-post conditionalities

Ex-post conditionalities refer to the performance framework and a 5% performance reserve. The UK supports a strong performance framework that ensures effective use of the Funds, and encourages innovative programming to tackle the main barriers to growth but it needs to, be flexible enough to reflect changing economic conditions and recognise that some factors, particularly economic conditions, may be outside the control of the Member State, managing authority or beneficiaries. Furthermore, sanctions should be applied only after the Member State or a Managing Authority has had the opportunity to take corrective action. The UK does not support the proposed 5% performance reserve as reallocation of resources in 2019 is too late and would lead to uncertainty in programming.

Macro conditionality

The Commission proposals for the next MFF would extend macroeconomic conditionality to all funds covered by the Common Strategic Framework. The proposals on macroeconomic conditionality stipulate that Member States can have funds suspended if they have repeatedly failed to take effective action to correct specific economic governance measures. The economic governance measures referred to include Council recommendations, excessive deficit, macroeconomic imbalances, adjustment programmes and the stability mechanism.

Currently the UK is not subject to potential sanctions based on these measures. While the UK fully supports EU measures to improve economic governance, these proposals disregard previous commitments made at the EU level that the UK would not be subject to EU sanctions in these areas.

Supplementary written evidence submitted by Open Europe

This additional submission is just to clarify any possible confusion concerning the €4.6 billion figure which we put forward as the UK’s potential saving (over seven years) from devolving regional policy back for wealthier EU member states.

In his written submission, Professor Fothergill disputed the figure, claiming that after the UK rebate was taken into account, the saving would only amount to €1.5 billion over the same period.

The confusion most likely arose over the starting point of our calculations, which admittedly we should have made clearer in the methodology section of our report.

The figures we present in terms of the contributions for the UK and others are actually based on post-rebate calculations, rather than the pre-rebate (gross) figures.

This could be a problem since our policy is expected to alter the rebate since it alters the level of EU spending and UK contributions. However, after further examination it becomes clear that this is not an issue.

This is because the with the exception of Portugal, all remaining spending under our new policy will be to new member states and is therefore not abatable. However, for the purposes of the following calculation we assume a scenario where the UK and Portugal reach an agreement to eliminate this remaining anomaly.

This means the total amount of the UK rebate which stems from the structural funds is lost and now equal to zero. This may seem like a startling fact but the large savings made from this policy still outweigh this impact.

The logic is much clearer when we start with the gross pre rebate figures and re-do the calculations:

<table>
<thead>
<tr>
<th>€m</th>
<th>Old Contribution</th>
<th>Old Receipts</th>
<th>Old Net Contribution</th>
<th>New Contribution</th>
<th>New Receipts</th>
<th>Saving Gross</th>
<th>Saving Net</th>
<th>Net of rebate</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>50,330</td>
<td>10,613</td>
<td>39,717</td>
<td>0</td>
<td>20,709</td>
<td>29,621</td>
<td>19,008</td>
<td>4,631</td>
</tr>
</tbody>
</table>

The level of the rebate here is estimated by the difference between the pre rebate contribution which is €50.3 billion and the post rebate figure which is €35.95 billion. Since all this is lost it is subtracted from the
savings made from the policy, giving a real saving from our policy of €4.6 billion as originally suggested in our report.

This simplistic calculation is suitable for our needs as a sort of quirk of our policy, since non-of the remaining spending is abatable. If a policy was implemented somewhere in between the current policy and our policy the impact would be less clear. This is because the level of the rebate would change based on how much spending remained in the UK relative to elsewhere. However, even in this instance the net saving is still likely to be positive, although it depends on the savings from the spending cuts.

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**Supplementary written evidence submitted by The Chief Economic Development Officers Society (CEDOS) & The Association of Directors of Environment, Economy, Planning & Transportation (ADEPT)**

**INTRODUCTION**

1. This supplementary memorandum of evidence is submitted jointly by the Chief Economic Development Officers Society (CEDOS) and the Association of Directors of Environment, Economy, Planning and Transportation (ADEPT).

2. The Association of Directors of Environment, Economy, Planning & Transport (ADEPT) represents local authority Strategic Directors who manage some of the most pressing issues facing the UK today. ADEPT membership is drawn from all four corners of the United Kingdom. The expertise of ADEPT members and their vision and drive is fundamental in the handling of issues that affect all our lives. Operating at the strategic tier of local government they are responsible for delivering public services that relate to the physical environment and the economy.

3. The Chief Economic Development Officers Society (CEDOS) provides a forum for Heads of Economic Development in upper tier local authorities throughout England. Membership includes county, city and unitary councils in non-metropolitan areas, which together represent over 47% of the population of England and provide services across over 84% of its land area. The Society carries out research, develops and disseminates best practice and publishes reports on key issues for economic development policy and practice. Through its collective expertise, it seeks to play its full part in helping to inform and shape national and regional policies and initiatives.

4. CEDOS and ADEPT jointly submitted written evidence to the Committee’s Inquiry into the European Regional Development Fund in England. Subsequently Linda Edworthy, Executive member of CEDOS gave oral evidence on behalf of our two organisations on 30 April 2012. Following this it was agreed that we would seek to provide further information and evidence to assist with questions raised by the Committee concerning any updated figures on contracted spend and changes we would like to see in ERDF processes.

**UPDATED FIGURES ON CONTRACTED SPEND**

5. During the oral evidence session, Stephen Gilbert MP had suggested that it would be helpful if the Committee could get some updated figures, either from the Government or from other colleagues. It is noted that written evidence to the Committee provided by the Department for Communities and Local Government and added to the list of written evidence on the Committee’s web site on 1 May 2012, includes information on formally contracted commitments and projects awaiting contract as at January 2012. As the Department is now the designated managing authority for all European Regional Development Fund programmes in England for the current programme period 2007–13, it is clearly best placed to provide more recent updated figures to assist the Committee’s Inquiry.

**CHANGES IN ERDF PROCESSES THAT OUR MEMBERS WOULD LIKE TO SEE**

6. As Linda Edworthy said in oral evidence, the bulk of our members’ views on changes are around the processes, the regulations and the removal of bureaucracies to make ERDF programmes in England more efficient and effective. We set out below some examples of specific areas of bureaucracy where members would like to see changes both in the administration and management of the current programme as well as in the next ERDF round. These focus on: audit arrangements; compliance/interpretation of State Aid Rules; staff capacity & making use of technical assistance provision. Case studies are provided to illustrate the adverse impact of what we consider overly onerous bureaucracy on projects coming forward for ERDF funding, after which we turn our attention to how the management and administration of ERDF in England could be improved for the next EU funding round 2014–20.

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9 See item 13 on the list of written evidence on the Communities & Local Government Committee section of the Parliament web site www.parliament.uk
Specific Areas of Concern

Audit arrangements

7. A number of our members have expressed considerable concern at the burdens, confusion and delays caused by a lack of clarity at the outset on the audit requirements and the current approach with several separate layers of audit. Examples of member concerns are:

- project partners frequently complain about the burden associated with audit requirements. It appears that the additional level of audit checks required by national matching programmes can often cause additional requirements not requested by the EU auditors. However these national level audits do not serve to de-risk the project in advance of EU audit (Cambridgeshire);

- in local government we have a clear separation of duties over payments, constitutional and legal advice over procurement meeting EU guidelines, regular internal and external audits, publication of annual accounts etc. Yet we find that we are audited by three different teams for each project, all looking at the same information and all requesting information that has been scrutinised through our own processes (Lincolnshire);

- the current audit regime is approaching levels consistent with forensic scrutiny; the level of monitoring and auditing of ERDF projects can cause severe delays in approvals and can reduce value for money by increasing administration costs, both at programme management level and for individual project delivery bodies. The application of additional requirements within the UK has needlessly led to specific problems for projects— for example the matter of internal funding transfers being ruled ineligible (Nottinghamshire); and

- Paper record-keeping is a big issue, for example we need to see evidence of defrayal of payments so we have to see applicants’ original bank statements, copy them, stamp them, send the originals back and retain the copies for many years. With more & more people using online banking, we have to get applicants to print their online statements and sign them to say that they are certified copies of an original (Norfolk).

8. There is much that can and should be done to minimise the administrative and bureaucratic burden of the current audit processes. We consider:

- the audit process should be proportionate with no obligations placed on ERDF recipients that exceed standard UK accountancy practices and no “gold plating”, where additional requirements are imposed by UK Civil Servants which are beyond the minimum EU requirements;

- there should be clarity from the outset of the audit requirements of project sponsors and the demands that will be made of them during the lifetime of the ERDF programme and beyond;

- the multiple layers of audits should be rationalised and reduced—ideally projects should only need to be audited once with a graduated approach employed whereby smaller projects are subject to less scrutiny; and

- the amount of paperwork and the time it has to be retained should be reduced to a minimum with auditors accepting greater use of modern technologies, rather than insisting on paper copies of all documents.

Compliance and State Aid Rules

9. In our original written evidence we referred to an increased emphasis being placed by DCLG on compliance. This is illustrated by the following member views:

- there is markedly less engagement from DCLG. The focus has shifted from one of partnership, co-operation and project development to a purely compliance culture eg the RDA used to hold regular meetings with local areas to discuss project ideas which would maximise economic benefit to the local area whilst ensuring compliance. This no longer happens with the only real engagement through the local management committee (Torbay);

- the regional team, having been transferred to DCLG, has been given a much narrower remit, now concentrating solely on programme management and compliance, rather than playing a strategic role in developing regional strategy and supporting sponsors to develop high quality projects (East Riding);

- further concentration by DCLG on compliance means the claims process is still extremely onerous. The level of detail required in the transaction sheets is considered excessive and there has been duplication in the queries raised by the ERDF secretariat, for example on the methodology for higher education sector overheads, which are calculated and agreed at a national level (Tees Valley);
— an example is the difficulty being experienced in securing approval for a broadband project in rural Nottinghamshire, where we are seeking ERDF to match fund part of the Broadband Delivery UK allocation. A proposal was submitted to DCLG in October 2011 and although similar projects have been approved by other ERDF teams, the East Midlands ERDF team continues to raise issues of State Aid compliance, revenue generation and apportionment, all of which have been covered in appraisal responses. In spite of supplying detailed information on all of these and many other points, the project has still not been recommended for approval by the ERDF team (Nottinghamshire); and

— the “gold-plating” of requirements extends frequently to national interpretation of eligible activity, which is often far more limiting than that taken in other member states; UK Government State Aid interpretations in particular are frequently the cause of delays and restrictions (Cambridgeshire).

10. Compliance is clearly important but it should be consistently applied and it should not be overly excessive. Moreover, it should not be the exclusive focus of DCLG, which should aim to understand local needs and help to nurture and support the development of high quality projects that deliver real economic benefits to local areas.

**DCLG Staff capacity**

11. As we said in our original written evidence, we are aware that the number of specialist staff dealing with ERDF in DCLG is significantly less than the number involved when the RDAs had responsibility. Although the extent of the reduction and the impact varies in different parts of the country, in some areas it is raising concerns and is having a negative impact as the following examples show:

— the immediate impact has been lack of resources as several of the RDA team were not transferred to DCLG; there is now no coordination of Interreg projects for example and the ERDF Competitiveness team has been significantly reduced (Norfolk);

— there is a fear that the centralisation of ERDF programme management and the reduction in staff that are specialists both in ERDF and the understanding of the regional issues will lead to problems as the programme comes to its conclusion (Central Bedfordshire);

— when the RDAs were abolished it did cause significant delays and confusion in the administration of the programme, particularly in the appraisal of project applications; the transfer of the East Midlands ERDF team to DCLG has maintained continuity in managing the programme but projects still take a long period of time to be appraised/contracted (Derby);

— insufficient numbers of staff were transferred to DCLG from Yorkshire Forward and the freeze on recruitment within DCLG has exacerbated the problem. No appraisal staff were transferred, which led to an ongoing backlog in moving projects through the pipeline process as projects needed to be appraised by staff in other regions who already had a heavy workload. In addition, once the team transferred they were initially unable to appoint independent quantity surveyors to complete required elements of capital project appraisal, causing further delays. At least £10 million remains available within Priority 5—technical assistance, which could be used to provide additional capacity within the staff team and commission external expertise but, unlike the RDAs, DCLG are committing insufficient match funding to the management and administration of the programme, meaning that this funding cannot be drawn down (East Riding).

12. In terms of the management of the current ERDF programme, it is essential that DCLG has the staff capacity, skills and experience and is able to draw down ERDF technical assistance funding as appropriate to ensure that all areas of the country have the necessary support to make maximum use of the ERDF funding available to benefit local economic development.

**Impact of bureaucracy on projects coming forward**

13. One of the points we made in our original written evidence is our understanding that in some areas some organisations have been put off even considering applying for EU funding, largely due to overly onerous bureaucracies imposed through the interpretation of EU regulations by the UK Government and the extremely lengthy timescales for the consideration and approval of proposals. This is illustrated by the following case studies from two of our members:

_Tees Valley:_ The current Business support Programme came to an end in March 2012 (with ongoing collation of claim evidence). Despite the success of the programme in supporting new and established entrepreneurs, the local authorities are unwilling to consider a bid for a further package for a number of reasons. These include:

— lengthy timescales for approval of projects;

— issues regarding eligibility and interpretation of the guidance by officers at DCLG are not always consistent, resulting in a clawback risk to the local authorities;
programme for England, would risk losing the essential connection with local and regional priorities and be

- a centralised approach, especially one with a national ERDF match funding. It will increase ERDF's added value and maximise its contribution to achieving economic
circumstances and opportunities, it will improve the prospects for identifying and assembling the required
burdens. By enabling local partners to shape and manage ERDF programmes focused on meeting local needs,
achieve critical mass and address broader regional issues where it is appropriate to do so.

Changes needed for the next ERDF period 2014–20

14. We consider that the changes referred to above need to be carried forward to the next funding period. They are very much accord with the European Commission’s commitment to simplification of EU funding in the next programming period.

15. At an overall level, to maximise efficiency, effectiveness and value for money, there is a need for a
developed approach to the management and administration of ERDF in England in 2014–20. Local authorities
and Local Enterprise Partnerships (LEPs) should have a key role in designing and delivering ERDF
programmes in England in partnership with DCLG, with decisions on investments being made locally making
full use of the knowledge and experience of local partners.

16. We consider that a devolved approach should apply to the EU Structural Funds and related Funds as a
whole, something that is in line with the Government’s commitment to localism and the European
Commission’s aim to provide a more responsive approach to real economic geographies in tune with local
needs and aspirations. It is particularly important for ERDF, which as a regional development fund must be
responsive to local and regional needs. As we said in our original written evidence, in England Local Enterprise
Partnership areas, as functional economic areas, present an obvious geographical starting point for a devolved
approach. Whilst LEP areas vary in size and overlap in some cases, these are not insurmountable issues, providing
LEPs are enabled to work jointly on cross-boundary issues and come together in larger groupings to
achieve critical mass and address broader regional issues where it is appropriate to do so.

17. A devolved approach will play a fundamental part in removing duplication and reducing administrative
benefts. By enabling local partners to shape and manage ERDF programmes focused on meeting local needs,
circumstances and opportunities, it will improve the prospects for identifying and assembling the required
match funding. It will increase ERDF’s added value and maximise its contribution to achieving economic
recovery and sustainable growth. By contrast a centralised approach, especially one with a national ERDF
programme for England, would risk losing the essential connection with local and regional priorities and be
likely to lead to a prescriptive one-size-fits-all approach and result in duplication of areas of activity, stifling of innovation and dilution of effectiveness and value for money.

18. The value for money provided by a devolved approach can be further enhanced by taking a joined-up approach to different funding streams for economic growth and regeneration and enabling them to be pooled at a LEP or other appropriate spatial level. This would fit with the proposed Common Strategic Framework, which envisages a better combining of funds to maximise the impact of EU investments, with multi-fund programmes avoiding duplication and reducing administrative costs and burdens. The process of aligning funds should be accompanied by simplified assessment procedures including combined application and appraisal processes carried out locally to reduce bureaucracy and provide best value for money. This should be accompanied at national level by a joined up approach to EU Funds by the Government Departments involved.

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10 Common Strategic Framework European Commission 14 March 2012