



# The future of funding

Geoff Cobb examines the funding channels open to UK developers and suggests that, when it comes to economic development and regeneration, our tax and lottery money is high and wide of its real targets.

'Can I get a grant?' This is usually one of the first questions asked by aspiring British developers, to whom a variety of funding channels are open, within the UK and from the European Union. Frequently the answer is 'No', often 'It depends', but never a quick 'Yes'. Few are surprised, of course, because we all know that 'free money' can never be an easily acquired commodity. Governments, public bodies and private institutions are all going to think carefully before dishing out hard-won funds *gratis*.

But in considering the applications of developers, do these funding organisations ask the right questions, and do they distribute public money in the most effective and appropriate ways? Are the strategies behind the allocation of funds creating projects which produce the right end results? Could better returns be obtained on the frequently substantial sums of money awarded if a different, even radical, approach were adopted? Before considering these questions and proposing answers to each, it is worth examining the principal grant regimes currently available to developers in the UK.

#### European Regional Development Fund (ERDF)

Established in 1975, the ERDF is one of the European Union's Structural Funds, which are administered by the European Commission's Directorate-General for Regional Policy, and aimed at promoting economic and social cohesion in the EU by supporting action to reduce inequalities between regions or

social groups. The DG for Regional Policy is the department of the European Commission that is responsible for EC action to reduce the gaps in socio-economic development between the regions of the European Union. The official aim of the policies and programmes of the DG for Regional Policy are 'to promote a high level of employment by tackling the regions' uneven capacities for generating sustainable development and their difficulties in adapting to new conditions on the labour market and to global competition'.

In terms of financial resources, the ERDF is by far the largest of the EU's Structural Funds, representing almost half its total budget. These resources are allocated to certain disadvantaged regions according to the Structural Fund's priority objectives for structural assistance.

Assistance from the Structural Funds is currently distributed according to three 'Objectives'. Objective 1 covers 'areas lagging behind', Objective 2 is concerned with 'areas facing structural difficulties', whilst Objective 3 supports 'adaptation and modernisation of policies and systems of education, training and employment'.

Financial assistance from the ERDF is mainly targeted at:

- supporting small and medium-sized enterprises;
- promoting productive investment;
- improving infrastructure; and
- furthering local development.

The ultimate aim of assistance from the ERDF is to create jobs through fostering competitive and sustainable development and the total budget for the Structural Funds for 1994-9 amounted to ECU 154.5bn (approx £100bn) at 1994 prices. This was about one third of the European Union's total budget and took up approximately 1.2% of the EU's GNP (1.27% in 1999).

We have just moved into a new era of European Union funding. Having commenced on the 1<sup>st</sup> of January this year, it will run for seven years until the end of

2006. There are new maps of eligible areas and some new innovations as well as some administrative 'tidying up'.

In July 1999 the UK government submitted its proposals to the European Commission in Brussels for its new Assisted Area map, which came into operation in January 2000. The new proposals were based, for the first time, on local authority wards rather than the traditional, larger, travel-to-work areas. The objective was to target more accurately those areas of deprivation requiring financial incentives in order to attract private sector investment and, in turn, create new jobs.

Another new aspect of the UK government's submission was a degree of coordination between areas qualifying for European assistance and those eligible for UK-funded help. In the case of those areas where the highest levels of assistance were proposed (formerly known as Objective 1 in Europe and Development Areas in the UK) complete harmonisation of territorial coverage was suggested. For other areas greater harmonisation than had existed previously was proposed.

The European Commission questioned several aspects of the UK's proposals. Critically, it objected to the concept of local authority wards as the unit of eligibility. The Commission usually favours maps consisting of larger constituent areas. Despite the Commission's traditional preferences, the UK was successful with its proposal and from 1 January 2000 local authority wards have been used to denominate the eligible areas.

The total sum available in the UK for regeneration and economic development from the Structural Funds during the period 2000-6 will be over £10bn. This substantial sum of money has to be matched from sources within the UK, which usually means either central or local government. This can prove highly problematic where budgets are tight or simply inadequate. The EU's view of priorities is not always the same as that of the UK.

Each individual programme is allocated its own specific share of the national ERDF pot to be administered locally. Every eligible locality forms a partnership of its principal interested parties, predominantly consisting of representatives of local authorities, government agencies and local public-private partnerships. This committee is chaired by the appropriate Government Office for the region whose staff also provide regional administration and interpret the scheme's rules. The requirement for matching funding can be a key factor in determining the composition of these local committees.

Before consideration can be given to funding any specific projects, the committee has to prepare and submit a Single Programming Document (SPD). The SPD sets out, in some detail, how it is proposed to



The ERDF is administered from Brussels by the European Commission  
Photo courtesy of European Commission Audiovisual Library

*Could better returns be obtained on the frequently substantial sums of money awarded if a different, even radical, approach were adopted?*

allocate the funding in the forthcoming years. Frequently running to hundreds of pages, this document has to be submitted via the region's Government Office and Whitehall to the European Commission in Brussels.

As each link in the chain has its own views on how the money should be disbursed, and wishes to assert its right to express them, this process takes time. Six months for the completion of an SPD submission would be considered fast, and it is not uncommon for it to take in excess of twelve. Complete rewrites are not uncommon, with the result that applications from projects seeking financial support cannot be considered for some time into the new programme. Eventually offers of assistance are made, projects proceed and actual payments of money are made, retrospectively.

Objective 1 dominates in terms of funding, with big money set to be dispensed over the seven years up to 2006. Four areas of the UK will benefit. Cornwall will receive £314m, South Yorkshire £738m, Merseyside £840m and West Wales and the Valleys £1167m. In addition, the UK managed to negotiate special deals for Northern Ireland and the Highlands and Islands of Scotland under which the areas will receive £560m and £194m respectively. In total, these depressed and remote areas of the UK will be the beneficiaries of some £3.8bn. But the total spending in these regions will be a minimum of £7.6bn, of course, as the EU money has to be matched by contributions from the UK.

The UK's Objective 2 areas cover a far greater geographical spread, with a population ceiling of 13.8 million plus some 6 million in transitional areas. These territories will, between them, receive a further £2.5bn of support from the EU for the same period. This money will also have to be matched, with the result that total spending will amount to at least £5bn under this category, producing a cool £12.6bn minimum total spend in order to meet Objectives 1 and 2 over the seven years.

#### **Regional Selective Assistance (RSA)**

RSA is a UK government scheme administered by the Department of Trade & Industry, offering selective grants to profit-seeking private sector companies embarking on job creation projects in the UK Assisted Areas. The new UK Assisted Area map is similar to, but not the same as, that for European assistance. Although RSA is a domestic scheme of assistance, the criteria governing its application still have to be agreed by the European Commission under its State Aids provisions.

Applicants for RSA funding need to demonstrate, principally, that their project could not proceed without assistance, that it would benefit the regional/national economy, and that it would be viable. Another important qualification is that the new jobs

created would not simply displace existing jobs in the locality. This requirement usually rules out assistance for retail projects other than in truly exceptional circumstances. Tourism and leisure projects are often considered ineligible under this displacement condition but there is no regulatory reason why they should not qualify provided they meet the criteria.

Grants can, where justified, be substantial, generally ranging from 5% to 15% of the fixed project costs, and RSA often acts as an effective financial incentive to attract private sector investors, both indigenous and remote including foreign. In the year ending March 1999, for example, £111m was spent in England, £80m in Wales and a further £74m in Scotland, making a total of £265m.



SRB funding is administered by DETR

#### **Single Regeneration Budget (SRB)**

The SRB, which began in 1994, has brought together a number of programmes from several government departments. It is a complex, flexible scheme, the budget of which is set by the Department for the Environment, Transport and the Regions, which can be used to tackle the deprivation being suffered by specific geographical areas or for thematic projects covering a wider county or sub-regional territory. The SRB is the main arm of the government's regeneration programme, administered at regional level by the eight Regional Development Agencies and in London by the LDA. The RDAs and LDA aim to coordinate regional economic development and regeneration, enable the English regions to improve their relative competitiveness and reduce the imbalances that exist within and between regions.

Bids for SRB funding are invited from partnerships involving a diverse range of local organisations which, collectively, are in line with the overall economic and social aims of the scheme: to improve the employment prospects, education and skills of people in a region; to address social exclusion and improve opportunities for the disadvantaged;

and to promote sustainable regeneration, and improve and protect the environment and infrastructure.

In order to achieve these aims, SRB funding is divided between projects which (a) undertake comprehensive action in communities in the most deprived areas and (b) tackle pockets of need in other areas. Those projects in the most deprived areas receive 80% of all SRB funds awarded. The UK's most deprived areas are defined in accordance with the government's Index of Local Deprivation which uses four measures to rank local authority district areas in order of deprivation. To qualify under this tier, projects must be in areas which are in the top fifty on one or more of the four measures of deprivation in the Index. A new Index will be published this year and a consultation paper was issued in December 1999. Areas may qualify in 2000 by being included in either the old or the new list. The remaining 20% of SRB funding goes to projects which fall outside this criterion, including those in rural areas, former coalfield areas and coastal towns not included in the Index.

In the first five years of its existence, the SRB approved over 750 projects, worth over £4.4bn of SRB support over their lifetime. Successful projects will run for, typically, five to seven years and the maximum sum awarded to an individual scheme is usually £250m. It is estimated that the existing projects will attract a further £8.6bn of private sector investment and help to attract European funding. Bidding for the sixth round of funding (SRB6) is currently under way.

#### **Partnership Investment Fund (PIF)**

For many years this flexible regeneration scheme was administered by English Partnerships (EP). The PIF was able to assist with a wide range of costs relating to project expenditure, such as project assessment and market feasibility studies, site assembly, joint investment ventures, loans and loan guarantees.

During 1999, however, the European Commission raised serious questions about the criteria governing the application of the PIF scheme under the terms of its State Aids restrictions. The result of its investigation was that the scheme had to be discontinued. Negotiations are nevertheless continuing in an attempt to devise a replacement scheme which would satisfy EU State Aids criteria.

Meanwhile, EP continues to perform its four prime functions: developing assets, creating partnerships, improving the environment and helping central government and the RDAs develop new and innovative funding mechanisms. It concentrates its assistance on priority areas defined as European Objectives 1 and 2, Coalfield Closure Areas, City Challenge and other inner city areas, other government assisted areas



*Too often the emphasis is on new buildings rather than new, sustainable jobs*

*The expenditure of money is frequently seen as a laudable end in itself.*

*Substantial sums may have been misdirected, with the best of intentions, by excessive concentration on visible physical works.*

and rural areas of severe economic need. English Partnerships has always had the flexibility to be able to respond to additional approaches for financial assistance in respect of projects which were deemed to be in the public interest and can still conduct its own direct development. In appropriate circumstances, where the private sector is unable or unwilling to help to the extent that is necessary, EP has the powers to make a direct contribution, usually in the field of infrastructure.

#### **Lottery funding**

A major difficulty for any developer seeking Lottery assistance is that none of the Lottery funds offers money to private sector organisations embarked on projects in pursuit of profit. All of the (sometimes substantial) projects to have received Lottery funding to date have been promoted by public sector, community or voluntary bodies, non-profit making trusts and the like. This criterion therefore rules out all commercially motivated projects at application stage. However, it will be fascinating to observe private sector 'rescue investors' gaining control of lottery-funded white elephants as their frequently over-optimistic business plans fail their real world visitor market tests and they require bailing out.

#### **Back-to-front development**

In each of the schemes outlined above most, if not all, of the funding is disbursed retrospectively against certified expenditure

on fixed assets. Although in some schemes working capital, development and other 'soft' costs are evaluated as part of the assessment of viability and need, no actual assistance is offered against these sums. Furthermore, other than in the case of RSA, money is only rarely made available to organisations which seek to make profits, or to pay out dividends.

The reasons for these approaches are easy to understand. Taxpayers' money must be spent carefully and always be accountable. Governments cannot leave themselves open to accusations that money has been wasted on unnecessary schemes or has gone straight to the bottom line of affluent capitalists' projects, thereby simply boosting their profits. Politicians ultimately take the responsibility for these schemes and therefore insist on solid in-built protection.

Frequently, substantial sums have been invested in infrastructure projects aimed at uplifting a depressed area to provide it with a new image and thereby stimulate investment not previously forthcoming. The clearance of derelict land, the construction of new roads, the planting of trees and the 'greening' of hitherto dowdy areas have been regular practices which have eaten up massive sums of money, often more in hope than expectation of attracting subsequent private

sector investment.

#### **Creating work, not buildings**

Government organisations like to see an impressive new, or refurbished, building above which a flag can be hoisted when the Minister performs the opening ceremony. Bricks and mortar provide solid evidence for cynical journalists to see how the money has been spent. Beneficial publicity is obtained for all when the great and the good assemble, complete with obligatory hard hats, for the official opening.

Unfortunately, new private investment does not always follow if sufficient research has not been undertaken in advance of the expenditure. 'At least we have tried', the authorities can say, and 'no-one can accuse us of ignoring the problems'. The expenditure of money is frequently seen as a laudable end in itself.

Even where companies do move into the newly developed areas, often they are merely relocating from a less attractive environment close by. Whilst at first glance this appears to be delivering success, it is not actually creating additional new jobs but simply moving them around the locality. The reasons for the absence of investment in a city or area may well go far deeper than its superficial physical image. Substantial sums may have been misdirected, with the best of intentions, by excessive concentration on visible physical works.

Similarly, it has not always been the best use of the public's money (and in this context the National Lottery is a public institution) to exclude private sector companies from receiving financial assistance. The result has been the promotion of many large-scale projects, with ambitious business plans, by organisations with insufficient hard-nosed commercial experience. The Lottery in particular has distributed vast sums of money, in a short period of time, to projects in the leisure and tourism fields. Many of them are struggling.

To some extent this is to be expected when new schemes are invested with large sums and there is an urgency to see early action. In addition widespread publicity and public accountability have demanded that these funds should be allocated equitably across the nation as a whole. The result: speed of delivery and the 'political geography' of regional inclusivity have been weighted above pure economic and business viability in assessing the funding case for a number of projects.

#### **Rethinking the targets**

The primary objective of all these schemes is the creation of new jobs in the areas attracting assistance, and their overall economic enhancement. Most new jobs come from economic growth created by investment

conducted by successful private sector companies.

Why not connect these two statements more directly and make more of the substantial funding available to the professional wealth creators rather than deploy it all indirectly on infrastructure or pour it into projects mounted by unprofessional, inexperienced, non-commercial organisations?

Of course, there would have to be safeguards to ensure that the money was not being provided unnecessarily. But such systems could be put in place relatively easily. RSA, for one, has developed over many years a comprehensive system of checks. On the whole these have been effective.

Furthermore, why not widen the scope for application of funding to take in much more than plant, machinery and buildings? Business is highly sophisticated these days, and there are considerably more costs involved in developing a major project than there traditionally have been. The world of e-commerce is arriving and will demand a new approach.

Assistance should be considered to meet the full spectrum of costs involved in the promotion of a new venture from feasibility study through development stage to implementation, including training, marketing, recruitment, and resolution of intellectual property issues.

Assistance should only be deployed, however, where it can be demonstrated that it will be needed, that the project will be viable, and that it will create genuinely new jobs.

In addition, far more funding should go to commercially run ventures. We must cast aside old-fashioned suspicions about people seeking to make profits. Business is about making profits, and the more a company succeeds in that objective the more new jobs it is likely to create. Projects should be appraised against business criteria, not geography or political correctness. It is, after all, no use to a depressed area to be allocated money for a project which subsequently fails. More harm than good is generated. Nothing succeeds like success – and the opposite is just as true.

This is radical thinking, contrary to many of the tenets of current UK funding policy. But we live in a period of fast-moving change. No sector will be immune from radical change, even the public sector, so the beginning of a new century, at the onset of a radically different era of business, seems an appropriate time to rethink some of our traditional attitudes.

**Geoff Cobb** is a consultant on matters of funding policy and regeneration



*New developments can be founded more on hope than expectation of attracting private sector investment*

*Why not widen the scope for application of funding to take in much more than buildings?*

