

## EUROPEAN REGIONAL DEVELOPMENT FUND - 2014-20 STRUCTURAL FUNDS PROGRAMMES

### Executive Summary

This letter outlines the issues with ERDF support which are compromising the university sector's engagement in local economic development.

### Background

Universities principally engage in ERDF as a way of contributing to local economic development, strongly influenced by their civic missions. ERDF is important to collaborative R&D work and universities subsidise ERDF projects by waiving large portions of indirect costs.

Many universities are concerned about the level of risk associated with accepting ERDF support, particularly with regard to clawback. Clawback can occur years later for minor compliance issues. This adds to the burden and uncertainty and is a major disincentive for universities to play a full role in ERDF economic development activities.

### Challenges and recommendations

We recognise six broad challenges arising from ERDF support.

1. **Challenge:** An unwillingness to accept the UK nationally agreed regime (TRAC) for calculating indirect costs in the university sector

**Recommendation:** For the 2014-20 Programmes a nationally approved university indirect cost rate for ERDF projects should be established, based on TRAC methodology. This should be set at a sensible and realistic level, to be determined, but with no requirement for specific project by project justification of the rate. A maximum delay should be established for uncontested claims.

2. **Challenge:** Dealing with State Aid rules at a local level creates major difficulties and inefficiencies not just for universities but for many other organisations.

**Recommendation:** Administering authorities (DCLG and the devolved governments in Northern Ireland, Wales and Scotland) should accept responsibility for the State Aid test at programme level and for giving advice on mechanisms to be used in projects to ensure State Aid compliance. Compliance with these defined mechanisms would then be accepted as the basis for audit.

3. **Challenge:** There is no clear recognition that economic development projects addressing difficult economic development issues are high risk projects.

**Recommendation:** Auditors should rightly focus on financial performance and eligibility of expenditure. They should take into account effort and commitment to projects and broader positive achievements, and should not place undue emphasis on what can, at best, only ever be estimated outputs. Administering authorities should manage output targets intelligently and at portfolio or programme level in order to ensure that adventurous, early stage projects with great future potential are not placed at a relative disadvantage or overlooked entirely.

4. **Challenge:** Narrow definitions of geographic boundaries lead to sub-critical economic development projects relating to innovation.

**Recommendation:** Innovation projects should be able to work with organisations across all ERDF eligible areas in the UK. Universities and other project participants located outside of an ERDF eligible area should be allowed sufficient scope to incur project expenditure which deliver benefits to economically active entities within an eligible area.

5. **Challenge:** A key feature behind many ERDF projects is to ensure that an activity which supports economic development and innovation can operate on a self-sustaining basis. However, revenues generated within a project may lead to a reduction in eligible grant.

**Recommendation:** Projects should be allowed to build financial reserves providing that there is a commitment to use such reserves in a ringfenced fashion wholly and solely for the purposes of the project even if this is beyond the original, funded project period.

6. **Challenge:** ERDF developments are commonly required to generate a long term business plan, in some cases for up to 25 years. Whilst this is maybe appropriate for major infrastructure investments it is not appropriate for revenue based or small building projects.

**Recommendation:** The business planning period be reduced to a maximum of ten years other than for recognised capital infrastructure projects and that only significant variations to the business plan require approval.

These issues will not be resolved in the short term and will require further discussion in the European Commission but our belief is that simplifying ERDF would benefit the organisations involved in project delivery across Europe and for managing authorities for ERDF.

Our university members maintain their commitment to support economic growth on both a local and national basis. Through the delivery of pragmatic solutions to what can seem insurmountable problems, much can be achieved and the commitment of universities to our economy can be enhanced.