

## **ECONOMIC DEVELOPMENT COMMITTEE EDC-03-99(p.12)**

**Date:** 14 July 1999  
**Venue:** Committee Room 1, National Assembly Building  
**Title:** **EC STRUCTURAL FUNDS**

### **ISSUE**

1. To provide the Economic Development Committee with an overview of the financial background and current forecast of requirements for public expenditure provision within the Welsh budget.

### **BACKGROUND**

2. The distribution of Structural Fund spending in the UK is channelled through the public expenditure system because it is ultimately financed by the UK taxpayer. Forecasts of all European receipts are built into the Government's overall expenditure plans and as a result therefore, public expenditure is higher than it would otherwise be without the receipts.

3. Based on previous experience, ERDF payments under the new Structural Fund programmes will not begin significantly in the first year or two, by which time, the financial implications of the new Objective 1 programme will be considered as part of the next CSR which is to be undertaken in the year 2000. The Treasury has agreed to consider on their merits representations from the Assembly about the public spending implications arising from Objective 1 status as part of the next CSR.

### **PROJECTED EC RECEIPTS – PUBLIC EXPENDITURE REQUIREMENTS**

4. The baseline provision for public expenditure resulting from EC receipts in the Welsh budget is broadly £40 million. This is a historic figure and can be identified by reference to past Departmental Reports. In addition, the Department of Education and Employment has provision for ESF in Wales.

5. Based on current projections, the funding implications for the period to the end of the next CSR (ie 2003-04) are shown in the table below. *It should be noted that the table is a forecast*

of the payments of grant which is in arrears of expenditure incurred (see section headed Cash Flow below). Only when grant is paid does it score as public expenditure against the Welsh budget.

6. The table does not take account of fluctuations in the value of the Euro since its introduction.

(£m)	2000-01	2001-02	2002-03	2003-04	Total for CSR period	Total receipts over EC programme period
New programmes	62	88	128	191	469	1440
Of which ESF (not covered by Welsh Budget)	-55	-65	-65	-65	-250	-480
<b>Total covered by Welsh Budget</b>	<b>7</b>	<b>23</b>	<b>63</b>	<b>126</b>	<b>219</b>	<b>960</b>
Overhang from current programmes	33	24	20	13	90	90
Less budget provision	-40	-40	-40	-40	-160	-360
<b>Total increase in public expenditure provision</b>	<b>0</b>	<b>7</b>	<b>43</b>	<b>99</b>	<b>149</b>	<b>690</b>

#### Notes –

- Profile based experience with existing Objective 1 programmes elsewhere in UK
- figures based on an exchange rate of £0.67 to 1 Euro
- assumes one-third of receipts are ESF and covered by DfEE
- assumes ESF schemes start spending more quickly than other programmes

#### MATCH FUNDING

7. Under the new programmes, match funding will continue to be the responsibility of the grant applicant. This ensures local ownership and commitment to, and prudent financial management of, the projects. There are numerous possible sources for match funding including local authorities, TECs, Government schemes, the voluntary sector and also the private sector. Organisations such as the European Investment Bank can make loans to local authorities for use as match funding. In some areas, innovative loan and equity funds such as the Merseyside Special Investment Fund have been set up to draw in resources from commercial banks.

8. The Structural Funds regulation allows a maximum grant rate of up to 75 per cent of a

project's total cost in Objective 1 programmes, compared with only 50 per cent or less under Wales' current Structural Funds programmes.

9. Actual grant rates for each individual project funded under the programmes will depend on the amount necessary for the project to proceed. The average grant rate available over the lifetime of a programme will be determined by the financial tables for each programme eventually approved by the Commission. It is therefore not possible to give a definite figure for the levels of match funds that grant applicants will have to find and the extent to which this will impact on the Assembly's budget.

### **COMPREHENSIVE SPENDING REVIEW (CSR)**

10. No decision has yet been taken on the precise timetable for the next CSR. The first CSR was a root and branch look at public sector spending to ensure that Departments meet the Government's priorities. This established firm budgets, and set objectives and targets for 3 years – 1999-00 to 2001-02. The precise format of the next CSR is still to be decided.

11. The CSR will be run in accordance with the Statement of Funding policy, and will be largely based on the Barnett formula. However, the Chief Secretary has agreed that the Treasury will consider, on their merits, representations from the Assembly about the public expenditure implications arising from Objective 1 status as part of that Review.

### **CASH FLOWS**

12. For information, when the Commission approve a Member State's programme, it agrees to release monies at certain trigger points throughout the programme period. When these trigger points are reached, the National Assembly will draw the amount of cash released at the trigger point from the European Account at the Bank of England and deposit the money in the National Assembly's Paymaster account. This will be held in a suspense account until required. *At this stage, the cash does not score as public expenditure.*

13. Successful grant applicants are expected to undertake their projects and claim for grant quarterly in arrears. Grant claims are processed by Assembly staff and payments made by Financial Accountability Division of the Assembly. When payments are made, the cash is drawn from the suspense account and at this stage scores as public expenditure. Underspensing of public expenditure provision is generally caused by the failure of grant recipients to claim grant on a regular basis: underspensing is carried forward between financial years.

14. Under the new programmes, it is planned that the Commission will expect spending profiles to be adhered to: slippage of more than two years may result in resources being forfeited for a particular programme.

**July 1999 Financial Planning Division**