

EXPLANATORY MEMORANDUM FOR EUROPEAN UNION DOCUMENT

08/2018 Special Report European Court of Auditors

Unnumbered Document

EUROPEAN COURT OF AUDITORS SPECIAL REPORT 08/2018: EU SUPPORT FOR PRODUCTIVE INVESTMENTS IN BUSINESS – GREATER FOCUS ON DURABILITY NEEDED

Submitted by the Department for Business, Energy and Industrial Strategy on

30th April 2018

SUBJECT MATTER

1. This report from the European Court of Auditors (ECA) is an assessment of whether European Regional Development Fund (ERDF) funding used for productive investments in enterprises between 2000 and 2013 has led to long-term benefits after project completion. The ECA also identified the main factors affecting this. The main indicator for measuring durability or long-term benefits is the continued flow of net benefits achieved by the project after completion.
2. ERDF is one of five European Structural Investment Funds (ESIF). ERDF is aimed at reinforcing economic and social cohesion within the EU by addressing regional imbalances through financial support for building infrastructure and creating employment.
3. Over 75 billion Euros of ERDF funding was earmarked for productive investments in enterprises between 2000-2013 and about 68 billion Euros is planned for 2014-2020. In the UK, over 6 billion Euros of ERDF was allocated to productive investments in enterprises between 2000-2013 and nearly 4 billion Euros is planned for 2014-2020.
4. The ECA examined 41 completed product investment projects co-financed by the ERDF between 2000-2013 as part of eight Operational Programmes (OPs) from Austria, Czech Republic, Germany, Italy and Poland. The ECA reviewed the OPs, selected projects and undertook monitoring, reporting and evaluation.
5. The ECA concluded that overall the majority of projects audited had durable or long lasting results. The durability requirements under EU law were met in all regions where the audits took place.

6. Some of the results from the audited projects were related to job creation, improved access to finance and loans, increased production and productivity. However, in a fifth of them, the results achieved by the time the projects were completed did not last. In half of the projects audited, it was not possible to assess the durability at the end of the durability period. This was because information was not always available or had not always been collected and relevant documents were not available due to expiry of the archiving period.
7. For those projects where results were not durable, there were various reasons including:
 - Operational Plans (OPs) did not promote durability effectively;
 - selection procedures didn't take account of conditions for achieving long term results;
 - monitoring and reporting of results was weak;
 - corrective measures to improve durability were applied inconsistently; and,
 - the Commission didn't place sufficient emphasis on durability when approving OPs.
8. The ECA made several recommendations including:
 - Member States should identify and mitigate risks to the achievement of durable results;
 - the Commission should put emphasis on how Member States address durability of outputs and results when approving OPs;
 - Member States should only support those investment projects with the potential for long lasting results;
 - Member States should establish monitoring and reporting procedures for project completion and improve collection of data;
 - the Commission and Member States should ensure that ex-post evaluations of the durability of results with projects are conducted more systematically; and,
 - the Commission ensures that Member States apply clear corrective measures consistently where projects fail to comply with EU legal durability requirements.

SCRUTINY HISTORY

9. There is no relevant scrutiny history on EU support for productive investments in business.

MINISTERIAL RESPONSIBILITY

10. The Secretary of State for Business, Energy and Industrial Strategy is responsible for EU legislation in relation to the ESI Funds. The Foreign Secretary, the Chancellor of the Exchequer, and the Secretaries of State for Exiting the European Union, Communities and Local Government, Work and Pensions and Environment, Food and Rural Affairs also have an interest.

INTEREST OF THE DEVOLVED ADMINISTRATIONS

11. The EU legislation governing ESI Funds is a reserved matter for the UK Government. The Devolved Administrations are responsible for the implementation of their own ESI Fund programmes. The Devolved Administrations were consulted in the preparation of this EM.

LEGAL AND PROCEDURAL ISSUES

12. There are no legal or procedural issues. This is not a proposal for legislation.

GIBRALTAR

13. Her Majesty's Government of Gibraltar is responsible for the implementation of ESI Fund programmes in Gibraltar, and was consulted in the preparation of this EM.

APPLICATION TO THE EUROPEAN ECONOMIC AREA

14. This report is an assessment of whether ERDF funding for productive investments in enterprises between 2000 and 2013 had ensured durability of outputs and results and therefore is not applicable to the European Economic Area.

SUBSIDIARITY

15. This document complies with the principle of subsidiarity. The implementation of ESI Funds is an area of shared management between the European Commission and Member States. Within the UK, a number of functions and responsibilities of the Member States in terms of shared management of ESI Funds are transferred to Devolved Administrations in line with devolution settlements.

POLICY IMPLICATIONS

16. On 23 June 2016, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation.

17. There are no major policy implications for the UK arising from this Commission communication. This is an assessment of whether ERDF funding for productive investments in enterprises between 2000 and 2013 had ensured durability of outputs and results. This Commission report does not require the UK to change its approach to the management of ESI Funds.

CONSULTATION

18. This is not a proposal for legislation and does not require a consultation exercise.

IMPACT ASSESSMENT

19. This is not a proposal for new legislation. It creates no additional impact on business, local authorities or the third sector and an impact assessment is therefore not required.

FINANCIAL IMPLICATIONS

20. There are no new financial implications arising from this report.

21. The allocations of ESI Funds to all EU Member States, including the UK, were agreed as part of the approval of the 2014-20 MFF and amended as part of the subsequent technical adjustment to the MFF. This ECA report does not create new funding commitments.

TIMETABLE

22. This ECA report will be presented to the European Council under the Bulgarian Presidency and they will provide their conclusions on the recommendations in due course.



Lord Henley

Parliamentary Under Secretary of State

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