

Report to the Joint Hearing BUDG - CONT on "A sustainable review of the Financial Regulation - boosting Europe's progress 2020" 1st June 2010

Difficulties for the Third Sector in accessing funding from the commission.

Background

The report is produced from information gathered from three sources **TSEN (Third Sector European Network)** supporting the NGO sector in the UK to access support from the Structural Funds since 1996. **CSV** a national UK charity that works in a number of social action fields, with volunteers, young people, the unemployed and excluded groups; involved since the mid eighties with European funding both in country where it used substantial amounts of Social Fund support but also on Transnational projects. The report draws on the experience of **Volonteurope** a large European network—with some 1400 members NGOs supporting volunteering in EU member states, member of the active citizenship group convened by the Active Citizenship Unit and it also incorporates a regional dimension provided by **Dacorum Council for Voluntary Service** in Hertfordshire in the Eastern region of England.

The content focuses on three areas

Structural Funds

Decentralised Funds accessed via national agencies

Centralised Funds from Brussels

Most NGOs in the UK will access Structural Funds and national agency led funds as they require the least investment in supranational activity.

In the UK European funding has become more desirable since 2008 as result of changes occurring in public funding in the middle of the decade. These include reductions in funding generated by domestic changes Single Regeneration Budgets and Neighbourhood Renewal Funding became more economic in their focus, Agenda 2000 came to an end and the new programme was realigned with domestic priorities.

This apparent decline in domestic funding, gave rise to greater demand upon Independent Funders (Trust and Foundations) themselves suffering from the economic downturn with the value of their endowments reduced as a result of poor stock market performance.

European Funding has become more attractive, despite the general Euro sceptic stance in the UK as its span exceeds that of the domestic parliament, its priorities and budgets once set can persist long beyond the timetables dictated

by short term shocks and parliamentary demands which may make prior calls on available domestic funds.

Despite the interest in European funding there is no single coherent source of information in the UK on European funding-how to access the various forms or indeed the contribution it is making to the NGO sector and its communities here in the UK. The decentralised programmes may be operated by a number of departments or agencies and information appears not to be held in any one place. And of course no agency holds information on applications made to the European commission directly.

Indeed the landscape within the United Kingdom is variable-in some cases Scotland, Wales and Northern Ireland run their own programmes of funding with different objectives and rules to those found in England in others the NGOs in Scotland, Northern Ireland and Wales are part of a unified programme as in Gruntvig, Leonardo or Youth in Action.

Even the European Social Funds whilst having, in some priorities national drivers, are developed and implemented regionally and in Scotland, Northern Ireland and Wales giving rise to distinct differences deriving not only from different labour market traditions but from the NGO perspective different histories of working with NGOs and therefore willingness to ensure NGOs are part of the programme delivery. In Wales, for example the NGO sector benefits from the Welsh adopting the regulation which allows volunteer time to be used as match funding, whilst in Northern Ireland there are national programmes where the NGO sector is well represented but in England none of these elements are present.

Structural Funds

The ESF programme budget in the UK is €6,049 million of which the contribution of ESF is €3,090 million and the national contribution is €2,959million. Of the ESF funding €196million is ring fenced for the Convergence area of Cornwall and the Isle of Scilly and €386 million for the Regional and Competitiveness Objective of 'phasing in' areas of Merseyside, and South Yorkshire. The intervention rate is 50% in the Regional and Competitiveness and Employment Objective, and 75% in the Convergence Objective.

In England with the exception of small parts of the programme, such as the Technical Assistance Priority and the Innovation, Transnational and Mainstream Programme to which direct bidding still apply, the rest of the ESF programme is co-financed by a small number of co-financing organisations (typically national and local government departments/agencies) such as the Department of Work and Pensions; the Learning and Skills Council; the Ministry of Justice and local authorities. Direct bidding still applies in Scotland, Wales and partly in Cornwall and Merseyside. In all regions, whether purely co-financed or having still a mixture between co-financing and direct bidding a similar trend has occurred:

there are fewer but much larger contracts available for tender. Such contracts are also paid by employment output which indicates that contractors need to make the initial cash investment before they can reap the benefits of the employment outcomes. There are two challenges for third sector involvement with this: firstly the sheer size of these contracts makes them extremely risky, if not inaccessible to majority of third sector organisations, and secondly third sector organisations, normally, tend not to be cash rich therefore making the initial cash investment tends to be rather difficult. Additionally, third sector organisations who work with excluded, vulnerable groups (those furthest from the labour market) cannot guarantee the job outcome, but rather the progression towards that outcome. A TSEN survey testing the experience of Third Sector organisations to the new ESF programme in 2008 seems to confirm that the specifications of Invitations to Tender simply did not cater for the kind of work TSOs are valued for.

From data published by the Managing Authority and TSEN internal research it is clear that the key stakeholders of this programme, i.e. those winning most contracts and percentage of funding, are a small number of large private, often global, organisations. Their motive for involvement is profit. There is a danger that the so-called 'creaming' or 'cherry picking' phenomenon will be encouraged as contractors in order to make a return on their investment will inevitably target 'clients' who are closer to the labour market. Analysis carried out by TSEN data between June 2008 and July 2009 shows that on average:

- At national level the share of total ESF projects for third sector is 25% and the share of ESF funding is 17% (as opposed to the private sector share of projects at 31% and 41% of funding; and public sector share of projects at 39% and 35% of funding)

It must be noted however that a small number of third sector providers do operate well in that environment a large proportion of funding awarded to the sector is managed by 12 organisations accounting for almost 40% of the all ESF contracts awarded to the sector.

However, although as we said there is a general tendency to decrease the number of contracts whilst increasing their value, retention of direct bidding in Wales and Scotland has made it possible to continue to use volunteer time as match funding in kind whereas this is not the case in England. It also seems in Wales the Welsh Assembly has made available a 'last resort' pot of match funding available to third sector organisations in difficulty. The lack of match funding in particular for technical assistance has proved a constant challenge for third sector organisations in England and likely to continue. The rather rigid co-financing system in England has also in effect precluded the programme any of the flexibilities afforded by the Economic Recovery plan such as the lump sums.

An evaluation of the Community Grants will be undertaken shortly by TSEN however, it seems that whilst some regions are doing excellent work others are

hampered by excessive due diligence in effect discouraging small communities and community groups from applying. The Innovation Transnational and Mainstreaming pot of money seem to be the only 'space' left in the programme to come up with the type of activities which were common practice in the 2000-2006 ESF programme, i.e. innovative and which would typically involve volunteers, and those furthest from the labour market such as people with learning difficulties or the homeless.

The audit regime for these funds in terms of document retention and the audit regime continues to be onerous.

ERDF-a regional perspective

In England the nine regions have each set their own priorities in relation to ERDF. Taking as an example of this approach, in the East of England the priorities are outlined below:

In the previously programme ERDF incorporated in most regions a Community Economic Development priority in which the Third Sector were heavily implicated, this is no longer present and indeed rumours of the new government's proposal to abolish Regional Development Agencies, currently leading on ERDF may well give rise to changes in administration.

The *East of England Operational Programme Document* outlines the investment priorities for the region. It focuses on three main priorities, as follows:

Priority 1 - Promoting innovation and knowledge transfer to improve productivity, to encourage commercialisation across the region's research and development base, and establish energy efficient and clean technologies.

Priority 2 - Stimulating enterprise and supporting successful businesses by overcoming barriers to business creation and expansion, improving access to finance for business and supporting the development of social enterprises (particularly those engaged in low carbon activities), supporting the development of high growth and high value-added businesses, and developing clean technologies and renewable energy clusters.

Priority 3 - Ensuring sustainable development, production and consumption by working with communities (both urban and rural) to support local jobs and business growth. To do this in a manner that generates low carbon outcomes, supports the development of low carbon approaches to construction and refurbishment of properties and promotes the efficient use of resources and the minimisation of waste in the region.

In terms of NGO engagement there have been a small number of positive achievements, most notably Disability Essex has a new purpose built facility to

improve the service offered to clients, whilst Southend YMCA has funding to invest in improving services offered to young people in the town.

In each case there is a long lasting legacy to ERDF support in the region, though the applicants have found the administration relating to reporting, the financial management and the match funding arrangements to be time consuming.

With ERDF being used as a vehicle which encourages capital investment, there are a lower number of NGO's interested in this funding stream. The majority of NGO's seeking funding are looking for revenue to deliver front line services / training to their clients. The complexity of application and reporting requires a size of application outside the scope of many NGO's.

Whilst ESF has moved to Co-Financing, the requirement under ERDF to have matched funding in place at the time of application is a barrier, particularly when the match may be coming from public sector support which cannot be guaranteed for a period longer than the present financial year. Many NGO's function due to the support of volunteers and the inability to include volunteer time is another barrier faced.

Decentralised Funds accessed through national agencies

The picture with these funds has not changed much since the last report. These funds are well used by NGOs, Universities and Colleges. They tend to be easier to access and well adapted to the national context. Despite the fact that managing agencies may change the distinctive features of national agency run programmes remain the same contributing to a higher` success rate and satisfaction where strengths of the national agency approach include:

- The national agent interprets the EC rules in a local context and deals directly with the European Commission to mitigate difficulties with application procedures; deadlines are less complex, submitted either in writing or on line; applications do not necessarily need hard copies with signatures of all parties.
- Forms are written with the national context in mind and in comprehensible language where a form developed in Italy, translated in to French and finally English there is a great risk of clumsy language making it harder for the applicant to understand what is required.
- The use of national experts to assess applications is also important in that they understand the field in which applications are made, e.g. training and will know be in a position to determine not only good projects but also what is feasible.
- Providers will find it easier to forge relationships with national agents as part of their role is to `develop' suitable projects, inform and advise on suitable projects there by getting to know providers and beneficiaries in the course of this work.
- The fact that the national agency needs to perform well to maintain expenditure levels means they have an incentive to help providers develop interesting eligible projects.
- On average over 60% of applications are successful in the major programmes Gruntvig, Leonardo and Youth in Action**

Funds accessed directly from the Commission

These are perhaps the most interesting but the most difficult to access both for individual agencies and networks without a presence in Brussels. The introduction of the Financial Transparency system, currently covering awards made between 2007 and 2009 has been most welcome.

□ The language of calls can be unclear as the texts are inevitably the fruit of a collaborative process. Sometimes they are so arcane only a handful of individuals seem to be able to prepare applications.

□ Application procedures can still be over complex for NGOs, submitting on line (forms may not be compatible) but accompanied with two hard copies, a summary in French and English, signed partnership declarations and in particular extracts from accounts or guarantees for certain finance levels all by precise date.

□ Although the DGs may have provided for 6 weeks lead in, the agency may come upon that with less time before the deadline, finding and arranging bank declarations as well as multiple partner declarations can take long time- need to give more notice, particularly for new calls or ones that change timetable. In the UK the compact specifies 12 weeks.

□ Calls sometimes require unrealistic numbers of partners for projects or the specifications seem to be written with few potential actors in mind and the short deadline favours those involved in early discussions.

□ Cash co finance remains a big issue for UK NGOs. Traditional sources of finance, such as trusts and foundations will rarely wish to support 'work in Europe' nor will public financiers provide for work outside the UK. Increasingly as public finance moves into contracts NGOs will not be able to include transnational work as relevant to delivering a service.

□ Decision making is still rather slow with decisions frequently taking 6 months and subject to delays which can mean projects have to be redrawn or withdrawn, with decisions on significant changes also taking a long time.

□ What appears to be a bias towards Brussels based networks may in fact be, as outlined under national agency funding (see above), that relationship building and understanding the context of Commission led initiatives as well as early intelligence makes applying much easier for those close to the Commission i.e. in Brussels.

□ Inactivity in Brussels from early July to September is unhelpful, the perception that the Commission has 'closed for the summer' is prevalent.

□ Payment formulae with 20% or similar, retention can be difficult for NGO's cash flow.

Conclusions

Finance from the European Union is an important and useful part of the funding landscape of NGOs in member states, increasingly desirable as it over arches domestic parliamentary terms. It is not without its difficulties

The principle of subsidiarity which has meant responsibility for the management of the Structural Funds passing to member states makes it hard for the European Union to be sure that funding will follow policy objectives agreed at EU level.

Europe 2020 commits member states to reduction of poverty targets and inclusive labour markets, no mechanism obliges them to support those objectives with investment from the Structural Funds and so the process may take over, as in the UK leading to work with those very recently unemployed and the disengagement of agencies, such as NGOs traditionally working in this area.

The exclusion of volunteer time as In Kind match funding at national level in regard Structural funds and indeed for centralised and decentralised funds is disappointing as this is, as we understand, allowable under the Financial regulations but often prohibited through custom and practice. Reinforcing this facility would allow NGOs who are cash poor but time rich to generate cash support for transnational work.

Audit requirements and record retention remains a burden at every level in relation to European Funding and should be made more proportional or standards commensurate with national standards should be introduced.

In relation to centralised funds simplifying processes would be a welcome move, perhaps introducing a simple first stage concept note applications to minimise nugatory work by NGOs who spend a lot of time completing full applications.

Many of the issues raised here in relation to centralised funds in particular, have been raised by other NGOs in Brussels and in the consultation response to the review of the Financial Regulations submitted by the Active Citizenship group (DGEAC) in December 2009. However a first draft of the new regulations seems to indicate that volunteer time as match, audit requirements and simplified processes still need to be addressed.

Tamara Flanagan-Chair TSEN/Director European Funding CS

June 2010

With the support of Ms Sandra Turner CEO/TSEN and Mark Mitchell CEO/Dacorum C S