Mind the gap
Regeneration funds at risk

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In revealing sentences in the introduction to the White Paper on European governance, the Commission says, "Many people are losing confidence in a poorly understood and complex system to deliver the policies that they want. The Union is often seen as remote and at the same time too intrusive." Sadly, too true, and well illustrated in the complete lack of coherence between state aid rules and regional funding, where more and more heritage-led regeneration projects are running into obstacles.

If our Government's goal for utilising brownfield sites is to be met, it is essential that funds from a variety of gap funding sources can be tapped. Gap funding itself is designed to deal with market failure - to assist the repair and conversion of redundant, derelict or under-used property to cover the shortfall between total project cost and the estimated final market value. To act, in other words, as a catalyst to transform whole communities through the provision of infrastructure, sites, housing and community facilities. But the European Commission Competition Directorate General has suggested that gap funding constitutes a threat to free market competition, focussing entirely on creating a level playing field for business.

One of the realities about the UK's old industrial base is that buildings become derelict or run down and efforts need to be made to assist their repair, maintenance and often conversion to reuse. The Structural Funds can be, and often are, important contributors to this when matched with funds from other sources. It is here that the problems have been growing.

In December 1999 the European Commission declared the English Partnership's Partnership Investment Programme (PIP) to be illegal state aid. It said that the basis for its decision was that the scheme offered an "economic advantage" to the developer. In the House of Commons Environment, Transport and Regional Affairs Select Committee's report (see EIS 213, pp 42-43) into the implications of this decision, the overwhelming view was that it seriously undermined urban regeneration in England "at a stroke". There is a strong argument to suggest that the main impact of gap funding is to facilitate the operation of the market where it is unable to accept the development risk. Furthermore, there is a risk that the longer sites lay derelict and undeveloped, the greater the effect on market confidence. Areas already suffering from urban decay may enter a spiral of decline, making it even more difficult for further regeneration efforts to get off the ground.

Many schemes involve the refurbishment of important listed and non listed buildings on major derelict sites which may have been eyesores for years. The Select Committee Report said, "For example, the warehouse redevelopments undertaken by Urban Splash in Manchester and Liverpool have not only reused existing buildings, but have done so in innovative and imaginative ways, putting in place high quality urban design." The Department for the Environment, Transport and the Regions told the Committee that projects approved under PIP were expected to create or safeguard 50,700 jobs, create 2,060,000 square metres of industrial/commercial floorspace and reclaim or service 1,500 hectares of land - precisely the sort of deliverables the Structural Funds are demanding. Experts in the Regional Development Agencies are now suggesting that, in the absence of a flexible gap funding mechanism, three times as much resource will be needed to deliver the same result. With one swoop, then, the EU cut off its nose to spite its face.

One of the knock on effects of this European ruling was that English Heritage had to notify its general Historic Buildings Monuments Park and Gardens grant scheme to the European Commission, since this was often used with other partners to gap fund repairs to historic buildings. The notification has been carried out using a relatively untested Treaty

Article on state aid rules, 87(3)(d), which cites as compatible with the common market "aid to promote culture and heritage conservation where such aid does not affect training conditions and competition in the Community to an extent that is contrary to the common interest." It is not yet known whether this will be deemed acceptable state aid by the Commission.

Now the Heritage Lottery Fund (HLF), previously thought to be safe from the state aid rules, has also found it necessary to notify Brussels for permission to continue its regeneration work. Both English Heritage grants and those from the HLF are important contributors to urban regeneration and often come into play as matches for Objective 1 and 2 funding. The present uncertainty about their status is not helping regeneration partnerships put plans into action. Up and down the country RDAs and Government Offices are holding back on approvals for heritage-led regeneration pending clarification. And the clarification is slow in coming.

A further difficulty has been encountered with regional government offices, RDAs and Regeneration Partnerships being advised that 'de minimus' grants, under which English Heritage's Historic Areas Regeneration Schemes (HERS) operates, are also subject to very tight instructions about cumulation so as not to exceed a limit of €100,000 over a three year period to any commercial enterprise. Safeguarding this limit is highly bureaucratic and difficult for any one grant operator to achieve with the net result that this grant scheme, too, will have to be notified to Brussels for state aid approval.

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Many of these issues are being turned over by the House of Commons Urban Affairs Sub-Committee which has been holding an inquiry into the need for a new European regeneration framework. As we know, after PIP was declared illegal state aid, a number of smaller schemes were fast tracked through the competition procedure and approved. These are known as Direct Development, Speculative and Non Speculative Gap Funding Schemes, Community Regeneration and Environmental Regeneration. There is widespread concern that the net result will be to reduce the amount of public funding available for regeneration use and a risk that many projects that could be assisted by Objective 1 and 2 funding may find it difficult to get off the ground. The difference between this batch of schemes and the PIP scheme is that they have been approved only to operate in the designated areas covered by the Structural Funds. Yet derelict buildings and the need to improve public spaces do not conveniently confine themselves to the most deprived areas.

If no improvement can be made, it will leave gap funded regeneration high and dry after EU enlargement, since it is widely expected that the UK will lose most, if not all, of its Objective 1 and 2 status post 2006.

A good fairy who can bang heads together in Brussels and London and try to resolve the impediments to effective urban regeneration is urgently needed. Regional, local and national government needs to come together to explain to the Commission that, on the urban agenda, the UK wants to be constructive and help the EU deliver the policies people want.

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