

EAST AYRSHIRE COUNCIL

CABINET: 01 SEPTEMBER 2010

EUROPEAN UNION STRUCTURAL FUNDS POST 2013

Report by Depute Chief Executive/Executive Director of Neighbourhood Services

1. PURPOSE OF REPORT

1.1 The purposes of this report are to:

- (a) Inform the Cabinet of the debate that has commenced regarding the new budget for European Structural Funds after 2013; and
- (b) Obtain Cabinet approval to support a position paper on EU Funding that has been approved by the Industrial Communities Alliance (IC Alliance), and to pursue this support through the COSLA's Regeneration and Sustainable Development Executive Group.

2. BACKGROUND

2.1 The current EU spending round expires in December 2013. For the period beyond 2013, a new budget for the European Structural Funds will need to be agreed, including the allocation of funding between member states and regions.

The debate about post 2013 EU funding is now firmly under way.

2.2 The IC Alliance has agreed a position paper on The European Structural Funds after 2013 and has requested member authorities to lend support to the recommendations contained in the position paper. The IC Alliance at national level has a strong track record of influencing past debates through its contacts within the European Commission and at Westminster.

2.3 The IC Alliance at the Scottish Regional level (which it Chairs) and at National level are key members of the Cross Party Group in the Scottish Parliament on Industrial Communities and the European Sub Committee of the Cross Party Group has in turn developed links to the Scottish Parliament European and External Relations Committee. East Ayrshire Council is a member of the IC Alliance and Councillor Kelly is Chair of the IC Alliance Scotland Region and Vice Chair of the IC Alliance nationally.

3 SUMMARY OF THE INDUSTRIAL COMMUNITIES ALLIANCE POSITION PAPER

3.1 Regional Development

3.1.1 The position paper argues that industrial areas in England, Scotland and Wales have traditionally been some of the main UK beneficiaries of EU Funding through the Structural Funds. However this focus was diluted in the 2006 – 2013 programmes. The IC Alliance argues that industrial areas have mostly suffered major job losses over the years and nearly all face continuing problems of economic adjustment and regeneration.

3.1.2 **IC Alliance Position:** *In the EU context, the IC Alliance therefore strongly favours a budgetary emphasis on regional development*

3.2 **The Re-Nationalisation Agenda**

3.2.1 In the run up to the present 2007-13 EU spending round, the UK government proposed what has become known as the 're-nationalisation' agenda. Under these proposals, the EU would cease to provide Structural Fund support to richer member states, including the UK, who would take over responsibility for funding their own regional development programmes. The EU Structural Funds would therefore be smaller in total, and focussed exclusively on the poorer member states, mainly in Central and Eastern Europe. As an integral part of this proposal, the UK government offered a guarantee to the UK regions that they would be no worse off, financially, than under continuing EU funding.

3.2.2 It is the current working assumption of the Alliance that re-nationalisation of the EU Structural Funds will continue to be the formal position of the UK government in the run up to the post-2013 EU spending round.

3.2.3 The IC Alliance sees merit in the re-nationalisation proposals as put forward by the UK government in the run-up to the present spending round. In particular, they would avoid the need to route funding from the UK Treasury to the UK regions via Brussels and thereby reduce bureaucracy. A direct dialogue between Westminster and the regions over regional funding also offers the potential to develop policies and programmes that are better suited to UK circumstances and needs. This might include better targeting of aid on disadvantaged areas beyond 'Convergence' regions.

3.2.4 However, events have intervened:

- It is becoming apparent that the re-nationalisation agenda has less support from across EU member states than was first thought likely, in which case the final outcome for the post-2013 period is more likely to be a variant of present-day Structural Fund arrangements
- The UK government has not on this occasion offered a financial guarantee to the regions that in the event of re-nationalisation they would be left no worse off in terms of regional aid

In the circumstances the prospect of ongoing funding from Brussels is more attractive than an entirely uncertain financial contribution from the UK government.

3.2.5 **IC Alliance Position:** *The Alliance cannot therefore support the re-nationalisation agenda as currently put forward by the UK government. On the other hand, if the UK government were to table robust financial guarantees to the regions, the Alliance would look again at this issue.*

3.4 **The Need for Better Targeting**

3.4.1 The reforms to EU Structural Funds that were introduced in 2007 replaced the former Objective 2, which was geographically targeted on less prosperous areas, by 'Competitiveness and Employment Strand' funding available in all the areas outside the Convergence Strand regions.

3.4.2 There are concerns regarding this:-

- It has meant that many regions with a GDP per head just above the Convergence Strand threshold (75 per cent of the EU average) are treated for EU funding purposes in the same way as vastly more prosperous regions
- There is a widespread view that the criteria attached to Competitiveness and Employment Strand funding (e.g. promotion of the knowledge economy) may have *compounded* inequalities within regions by drawing funding towards the core cities or existing 'growth poles' at the expense of disadvantaged industrial areas
- Spreading the Competitiveness and Employment Strand funding across very wide areas has reduced the visibility of EU funding and limited its impact in the places most in need
- If the overall EU budget for the Competitiveness and Employment Strand is reduced after 2013, which seems distinctly possible in an era of tight public expenditure constraints in many member states, the 'thin spread' of the funding will be accentuated.

3.4.3 **IC Alliance Position:** *The Alliance therefore calls for the restoration of geographically targeted EU regional aid outside the Convergence Strand regions.* The IC Alliance notes that this would make better use of what may be reduced overall funding in future. The IC Alliance also notes that deploying the European Regional Development Fund (ERDF) in this way would restore much of the Fund's original purpose, which in the present round has been diluted in the pursuit of the wider agenda of raising the competitiveness of the EU as a whole, and not with self-evidently successful results.

3.4.4 The Alliance does not at present take a view on precisely how, in terms of statistics, a new tier of assisted areas outside Convergence regions might be defined but has a clear view that funds should not be targeted in a 'pepper pot' way to small areas across the country, defined for example in terms of the Indices of Deprivation. Labour markets, and economic disadvantage, operate over wider geographical scales.

3.4.5 **IC Alliance Position:** *The Alliance therefore calls for geographical targeting of EU Structural Funds outside the Convergence Strand regions to be focussed on coherent economic areas, such as whole sub-regions.*

3.4.6 One of the reasons why the European Commission withdrew from this kind of targeting after 2006 was undoubtedly that it posed an administrative headache for EU officials who could not hope to have the detailed knowledge or understanding to play a meaningful role in drawing up the maps. This problem has been compounded by EU enlargement.

3.4.7 **IC Alliance Position:** *The Alliance therefore calls for the identification of target areas to be devolved to member state governments, working in collaboration with regional and local authorities.*

3.5 **Measures to be Supported**

- 3.5.1 Since 2007, it has been a requirement that a substantial proportion of the Structural Funds available both inside and outside the Convergence regions has to be spent on measures that support the 'Lisbon Agenda' of greater competitiveness for the EU economy. The aims of the Lisbon Agenda are entirely laudable, but this particular focus has not been without its problems. It has limited spending on some necessary infrastructure measures, and more generally it has constrained regional development programmes within a tight framework that do not necessarily reflect local priorities or needs. A practical problem is that in many places it has resulted in difficulties in delivering projects on the right timescale, and there has therefore been an incipient problem of under-spending on allocated budgets.
- 3.5.2 ***IC Alliance Position:*** *The Alliance therefore takes the view that a less rigid approach to specifying measures to be supported would be appropriate in future.*

3.6 **EU Rules Governing Regional Aid**

- 3.6.1 The EU exerts a wider influence on regional development than through the Structural Funds alone. The EU state aid rules governing aid to companies to create or protect jobs in less prosperous regions are presently determined on the same cycle as the EU budget, with new rules due for the post-2013 period. These determine what the UK government is allowed to spend, from its own resources, on aid to firms in its own regions. Investment assistance to larger firms can only be granted in designated 'assisted areas'. As currently structured, the rules on regional aid have knock-on consequences in less prosperous areas for the maximum aid intensities to support investment in SMEs.
- 3.6.2 The Alliance would wish to see a continuing and widespread eligibility for regional state aid across the UK regions. This is likely to require trenchant opposition to the expected starting point of the European Commission. Additionally, if the volume of Structural Funds coming to the UK is reduced after 2013, which is possible, it becomes doubly important that the UK government has the flexibility within the state aid rules governing regional aid to deploy its own resources to support businesses and job creation in less prosperous areas.
- 3.6.3 Last time round, in the run-up to the introduction of the state aid rules for 2007-13, the UK government was slow to recognise the seriousness of this threat to UK regional development. This necessitated a major effort (thankfully successful) to overturn unacceptable European Commission proposals after they had been published.
- 3.6.4 ***IC Alliance Position:*** *The IC Alliance therefore calls on the government to give urgent priority to delivering acceptable EU state aid rules on regional aid alongside new arrangements for the Structural Funds beyond 2013.*

4 **DISCUSSION**

- 4.1 The issues described in the IC Alliance position paper reflect closely the circumstances within East Ayrshire. The area has continued to suffer major job losses particularly in the manufacturing sector and faces continuing

problems of economic adjustment and regeneration. The positions currently adopted by the IC Alliance, if realised, would be likely to benefit East Ayrshire significantly.

4.2 Indeed from 2008-2011 East Ayrshire has benefited from CPP bids totalling £4,759,551 and funding in excess of £2m has been obtained for projects in East Ayrshire through challenge funds secured by Ayr College, Enable Scotland, Action for Children, Princes Trust, Skills Development Scotland, Momentum and Job Rotation. The West of Scotland Loan Fund has also received £416,369 during this time. In relation to 2009 and 2010 Regional Selective Assistance of over £2.258m has been offered to safeguard/secure jobs in 4 local companies.

4.3 As well as this funding being used to support business growth and jobs it has been particularly targeted towards the skills development and employability agenda. Accordingly, if these funding streams were to cease to be available or to be reduced significantly, there would be a considerable detrimental effect on the range and depth of measures and projects which would be available locally to support economic and social regeneration.

5. FINANCIAL IMPLICATIONS, LEGAL IMPLICATIONS AND RISK MANAGEMENT IMPLICATIONS

5.1 There are no risk management implications arising from this report.

6. COMMUNITY PLANNING AND POLICY IMPLICATIONS

6.1 Structural Funds and State Aid support can contribute significantly to the achievement of some of the outcomes in Delivering Community Regeneration of the Community Plan.

7. RECOMMENDATION

7.1 Cabinet is asked to:-

- (i) Support the current position paper prepared by the Industrial Communities Alliance "The European Structural Funds after 2013"; and
- (ii) To pursue this support through the Regeneration and Sustainable Development Executive Group on COSLA.
- (iii) Otherwise note the content of this report

ELIZABETH MORTON

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07-07-2010

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LIST OF BACKGROUND PAPERS

"The European Structural Funds After 2013" – A position paper from the Industrial Communities Alliance

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