

EAST AYRSHIRE COUNCIL

DEVELOPMENT SERVICES COMMITTEE – 8 MARCH 2006

EUROPEAN UNION REGIONAL AND STATE AIDS

Report by Executive Director of Development and Property Services

1. PURPOSE OF REPORT

1.1 The purposes of this report are to:

- (a) Inform the Committee of the current position and to highlight issues regarding the arrangements for the delivery of European Union Regional Aid, State Aids and Rural Development Regulation funding post 2006.
- (b) Obtain authority from the Committee for Elected Members and Officers of the Council to participate fully in the continued lobbying of the Scottish Executive, UK Government and European institutions through the Alliance for Regional Aid (ARA) and other organisations including the West of Scotland European Consortium (WoSEC), and the Coalfields Communities Campaign (CCC) with a view to securing appropriate Regional, State Aid and Rural Development Regulation support for East Ayrshire post 2006.

2 BACKGROUND

2.1 On 4th May 2004 the Development Services Committee considered a report on the Future of European Union Regional and State Aids. That report, amongst other matters, informed the Committee of the position at that time regarding proposals to reform European Union Regional Aid and State Aids post 2006.

The Committee noted the position and authorised Elected Members and Officers of the Council to participate fully in lobbying with a view to securing appropriate Regional and State Aid support to areas of need such as East Ayrshire.

2.2 On 14th December 2004 the Development Services Committee considered a report that informed the Committee of the UK Governments consultation exercise on European Commission Proposals on Regional State Aid and homologated the detailed response that had been submitted by the Leader on behalf of the Council.

3 STRUCTURAL FUNDS CURRENT POSITION

3.1 General

3.1.1 The EU Budget for 2007-2013 was agreed by the member states on 16th December 2005 at a summit in Brussels. The European Parliament has still to endorse this agreement.

3.1.2 This settlement has major implications on EU regional funds in the UK in the future. Post 2006 structural funds will be focused to a greater extent on the poorest EU member states including of course the new member states. There will be future EU funding to all UK regions but the amount of funding, allowing for inflation, will fall by just over one half.

3.1.3 The EU Budget will be focused on 3 Objectives namely:-

A Convergence Objective:- for regions with a GDP below 75% of the EU average.

A Competitiveness and Employment Objective:- for all other regions

A Cooperation Objective:- for cross border and trans national projects

3.2 UK Perspective

3.2.1 In total it is anticipated that the UK will receive 9.4 billion euros (2004 prices) between 2007 and 2013.

3.2.2 Of this 2.6 billion euros will be Convergence funding for the poorest regions. Cornwall and West Wales and the Valleys will receive full Convergence funding whilst the Highlands and Islands will receive phasing-out Convergence funding.

3.2.3 6.2 billion euros will be Competitiveness and Employment funding for the UK's other regions. Apart from some phasing-in Competitiveness funding for South Yorkshire and Merseyside it will be for the Government, in agreement with the Commission, to decide how the UK's remaining funding should be allocated between its nations and regions.

3.2.4 0.6 billion euros will be Co-operation funding and the Government will need to agree with the Commission as to how this will be spent.

3.2.5 It is not possible at this stage to provide precise amounts to be received by UK regions. This will only be known once the EC has produced official Structural Funds allocations for the UK and its regions. The unofficial Scottish Executive estimate for Lowland Scotland is 611 million euros. (see below)
(NB All the above figures are subject to confirmation)

3.3 Scottish Region Perspective

3.3.1 **Convergence Funding** - As indicated above the Highlands and Islands will be eligible for phasing-out Convergence funding.

3.3.2 **Competitiveness and Employment Funding.** As regards the rest of Scotland it is proposed that there will be a Single Lowland Scotland Competitiveness Programme but it will not be earmarked for specific areas, unlike the present Objective Two Programmes. There will be a parallel Lowland Scotland Employment Programme (similar to the current Objective Three Programme.)

East Ayrshire will require to compete within the Lowland Scotland Programme that will include areas of opportunity as well as areas of need, city areas and rural areas.

Details regarding the themes and priorities for Competitiveness and Employment funding are currently subject to consultation. The Scottish Executive is undertaking a series of stakeholder events to discuss the areas on which future programming should focus, how these can fit with Scottish priorities and how structural fund programmes can best be delivered in the future.

The Scottish Executive has suggested the following priorities for the Lowland Scotland ERDF and ESF Programmes:-

ERDF	Innovation and Enterprise Community Regeneration Sustainability
ESF	Access to the labour market Improving the skills levels of employees Life Long Learning Environment

Regional Employment Programmes will focus on implementing the European Employment Strategy and the National Employment Action Plans.

The Scottish Executive has suggested that part of the Structural Funds allocated to Lowland Scotland be top sliced to support the delivery of Programmes of Projects contained within National Agency strategies such as that for Scottish Enterprise.

The EU has also proposed that there will be a guaranteed urban dimension within the mainstream of regional policy with an allocation of Competitiveness funding to a new URBAN+ Focus. Eligible areas would be agreed by member states in consultation with the regions. This issue is the subject of a consultation exercise currently being conducted by the European Commission.

3.3.3 Co-operation Funding will build on the experience of the present INTERREG Initiative

4. EUROPEAN STATE AID RULES POST 2006

4.1 General

4.1.1 EU State Aid rules govern the financial assistance that the UK Government is allowed to give firms in order to create or protect jobs. The present rules expire at the end of 2006 and new EU rules were agreed by the Commission on 21st December 2005. These new rules will govern UK Government spending on Regional Aid for the period 2007-2013.

4.2 UK Perspective

At present 18 million people live in the areas eligible for UK regional aid. This number will be reduced to 14 million.

Cornwall and West Wales will be eligible in full for the higher rates of assistance. The Highlands and Islands will be eligible for an intermediate rate of assistance.

The remaining assisted areas, covering around 11.5 million people are to be determined by the UK Government within a loose framework set by the new rules. Firms in these areas will be eligible for a lower rate of assistance.

4.3 East Ayrshire Perspective

The main issue is the allocation of the discretionary coverage.

The Alliance for Regional Aid has been pressing the Government to undertake a full public consultation on the mapping process and this would allow East Ayrshire to argue its case. The Department of Trade and Industry has recently confirmed to ARA officers that such a consultation exercise will be launched by mid February 2006. Guidance on statistical indicators and building blocks to assist with this is likely to be provided by the Alliance for Regional Aid.

5 SCOTTISH RURAL DEVELOPMENT REGULATION

5.1 Following reform of the CAP in 2003, EU rural development funding in the 2007-13 programming period will be delivered through a single European Agricultural Fund for Rural Development (EAFRD). The EAFRD will be used to support three strategic priorities representing Axes in Regulation 1698/2005. Minimum proportions of EAFRD funding (including compulsory modulation) must be allocated to each of the Axes as noted below:

- i. Improving the competitiveness of agriculture and forestry by supporting restructuring, development and innovation (Axis 1) - 10%
- ii. Improving the environment and the countryside by supporting land management (Axis 2) – 25%
- iii. Improving the quality of life in rural areas and encouraging diversification of economic activity (Axis 3) – 10%

The strategic approach also supports a fourth horizontal Axis to enhance the use of the LEADER approach which is a bottom-up, locally-driven approach to innovation and development administered by local partnerships. Axis 4 can be delivered across any one or combination of the three main Axes – 5% (within the minima for Axes 1-3). Funding from the EAFRD must be matched by a contribution from national sources.

5.2 Details regarding the themes and priorities for the Scottish Rural Development Regulation are currently subject to consultation. The Scottish Executive is undertaking a series of stakeholder events to discuss the areas on which future programming should focus, how these can fit with Scottish priorities. The three themes they are proposing for the strategy are:

- Theme 1 – Underpinning performance and quality in the agriculture, Theme 3 – Promoting a more diverse rural economy and thriving rural communities food processing and forestry sectors
- Theme 2 – Enhancing rural landscapes and the natural heritage

5.3 LEADER will cease to operate as a separate Structural Fund programme from the beginning of 2007. It will become an integrated component of the new SRDP and the LEADER approach can be applied to any of the three axes of rural development. The Executive propose that a locally driven approach is adopted in which innovation is a fundamental principle in the allocation of LEADER grants, is a cross-cutting Axis and, therefore, has potential to contribute to outcomes and priorities across the three themes.

6. COMMENTS

6.1 Structural Funds

6.1.1 The EU Budget has been agreed following very lengthy discussions. The new Programmes are scheduled to commence in 2007 and there is a very short period of time available to finalise the Programmes and agree the delivery mechanisms.

6.1.2 The Alliance for Regional Aid proposes to lobby the UK Government on the following issues:-

- (a) Securing financial compensation from the Treasury for the reduction in EU regional aid (which is likely to be opposed by the Government who argue that they have already increased funding to the regions) and
- (b) Targeting the “Competitiveness and Employment” strand money on areas of need.

In addition the Coalfields Communities Campaign Scottish Region will locally lobby the Scottish Parliament via the All Member Scottish Parliament Group of Coalfield MSPs on these issues.

6.1.3 The Scottish Executive proposes to include Community Regeneration within its priorities and this reflects the effective lobbying that has been undertaken to date. It is important that the proposed Lowland Scotland Programme focuses on supporting areas of need as well as areas of opportunity. This issue will require to be subject to extensive lobbying to ensure that disadvantaged areas such as those in East Ayrshire are eligible for funding through the new Programme.

It is expected that the Coalfields Communities Campaign Scottish Region will locally lobby the Scottish Parliament via the All Member Scottish Parliament Group of Coalfield MSPs on this issue and also most likely on the possible introduction of a Coalfield Regeneration element to the Programme.

- 6.1.4** The proposal that some funds should be top sliced to support Agency Programmes such as the Scottish Enterprise National “Smart Successful Scotland” Strategy will require to be debated in detail as some of those strategies do not give an obvious focus on assisting areas of need. In the National Planning Framework, the coalfield area features as a strategic issue in the sense that action is required to improve the environmental quality of the area. The Coalfield Communities Campaign Scottish Region will also discuss this issue with the All Member Scottish Parliament Group of Coalfield MSPs
- 6.1.5** Ayrshire in general and East Ayrshire in particular will also require to ensure that the Glasgow City Region strategy recognises and supports local issues in this regard.

6.2 State Aids

- 6.2.1** Although the new rules will result in a reduction in the population in the UK living within eligible areas, than at present, the actual reduction is much less than that originally proposed and reflects the effective lobbying that has been led by the Alliance for Regional Aid.

East Ayrshire Council has participated fully in this lobbying exercise by responding directly to UK Government consultation exercises and participating fully in lobbying opportunities arranged through the Alliance for Regional Aid, West of Scotland European Consortium and the Coalfields Communities Campaign. Lobbying has also been undertaken through the All Member Scottish Parliament Group of Coalfield MSPs.

- 6.2.2** The next step is to lobby for maximum coverage for East Ayrshire in the mapping exercise that is to be undertaken.

6.3 Rural Development Regulation

- 6.3.1** LEADER provides support for a wide range of rural development activity. It is not yet clear whether LEADER will continue to be a competitive programme or whether there will be total coverage for Scotland. Neither has the amount of funding to be allocated yet been agreed.
- 6.3.2** However, it is likely that there will be an opportunity for East Ayrshire to bid for LEADER funding at some stage during 2006. Current thinking is that the Executive will require LEADER partnerships to cover a broader geographical/population base than that of East Ayrshire. It is therefore likely that any bid would either need to be part of an Ayrshire wide partnership, Coalfield area partnership, or possibly linking with the existing South Lanarkshire LEADER partnership.

6.3.3 The LEADER programme is unlikely to follow a co-finance model and any bids will require to identify 50% match funding. Partnerships will also require to have a clearly identified Rural Strategy. Discussions have already taken place with the Community Planning & Partnerships Manager and this requirement will be addressed as part of the overall review of the Community Plan.

6.3.4 East Ayrshire Council has participated fully in the lobbying exercise by participating fully in lobbying opportunities arranged through the Local Government Rural Network., and West of Scotland European Consortium.

6.3.5 The next step is to lobby for the maximum percentage to be allocated to delivery of the LEADER Axis of the RDR for measures which will open up the greatest opportunity for the rural area of East Ayrshire. Stressing the linkages between rural deprivation and former coalfield communities will also be important.

7 COMMUNITY PLAN / POLICY IMPLICATIONS

7.1 The availability of Structural Funds, State Aids and Rural Development Regulation funding to support projects in East Ayrshire is key to achieving many of the Aims of the East Ayrshire Community Plan.

8. FINANCIAL IMPLICATIONS

8.1 There will be expenses incurred as a result of Member and Officer participation in associated lobbying exercises. There would also be costs incurred in the event of external advice being procured. These costs cannot be quantified at this stage.

9 LEGAL IMPLICATIONS

9.1 There are no legal implications arising from this report

10 RECOMMENDATIONS

10.1 It is recommended that the Committee:-

- (i) Notes the current position and issues regarding the arrangements for the delivery of European Union Regional Aid, State Aids and Rural Development Regulation funding post 2006.
- (ii) Authorise Elected Members and Officers of the Council to participate fully in the continued lobbying of the Scottish Executive, UK Government and European institutions through the Alliance for Regional Aid (ARA) and other organisations including the West of Scotland European Consortium (WoSEC), the Coalfields Communities Campaign (CCC) and the Local Government Rural Network with a view to securing appropriate Regional, State Aid and Rural Development Regulation support for East Ayrshire.

- (iii) Authorise the Executive Director of Development and Property Services to procure external advice, if required, in order to assist in the development of appropriate responses to the various Government Consultation exercises that will be initiated and also of related lobbying strategies.

James Lavery
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17 February 2006
DAH/LA - FV

BACKGROUND PAPERS

Cohesion Policy and Cities – The Urban Contribution to Growth and Jobs in the Regions
Proposed Future Priorities for ERDF Competitiveness Programme (Lowlands & Uplands Scotland)
Proposed Future Priorities for ESF Programmes (Convergence and Competitiveness Objective)
Rural Development Regulation for Scotland 2007-2013 – The Strategic Plan
Review of the Assisted Areas Stage 1 – Identifying criteria Consultation Paper by the Department of Trade and Industry – 15th February 2006

For further information on the contents of this report please contact David Hewet, Senior Policy Adviser (Tel: 01563 554608) or Lesley Arnott, External Funding and Sustainability Officer (Tel: 01563 576573).

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