

# EAST AYRSHIRE COUNCIL

## DEVELOPMENT SERVICES COMMITTEE - 26 AUGUST 2003

### THE FUTURE OF EU REGIONAL AID

#### Report by Director of Development Services

## 1 PURPOSE OF REPORT

- 1.1 The purposes of this report are to inform the Committee of the UK Government's Consultation Exercise on "A modern regional policy for the United Kingdom" and the response submitted within the consultation timescale.

## 2 BACKGROUND

- 2.1 The enlargement of the European Union in 2004 to include ten new Member States mainly in Central and Eastern Europe necessitates a reappraisal of EU Regional Policy.

- 2.2 In March 2003 the UK Government initiated a major consultation exercise on the issue through the publication of a document entitled "A modern regional policy for the United Kingdom". Within it the Government confirms a desire and commitment to see every area and region enabled to realise its full potential to the full and argues that in order to achieve this goal reform of four key dimensions of EU regional policy is required namely:

- Reform of the Structural and Cohesion Funds to allow Member States pursue effective policies for regional growth and developing human capital within a framework which has sufficient flexibility to meet their differing needs;
- Reform of the State Aid regime to create efficient, proportionate and responsive state aid rules that are able to accommodate the diversity of measures needed to achieve effective local and regional policy;
- Reform of the European Investment Bank financing to make the most effective use possible of EIB funds throughout the EU, and in particular its lending to less prosperous Member States; and
- Reform of the Common Agricultural Policy to ensure a market orientated and sustainable policy.

- 2.3 Responses to the UK government's proposals were invited to be submitted by 4 July 2003.

### 3 DISCUSSION

- 3.1 The regions of the new Member States are generally much poorer than those within the current EU and face significant challenges to ensure cohesion and sustainable growth. If the new Member States are to converge with the rest of the EU, then a significant share of future Structural and Cohesion funds will have to go to the poorest regions in these new Member States. Unless there are significant changes made to EU Regional Aid then the consequences of this will be that few areas within the UK will in the future benefit from funding through the mainstream European Programmes.
- 3.2 The Government's views on the need for the reform of State Aid Rules, the European Investment Bank and Common Agricultural Policy are broadly accepted and national discussion and debate has focussed predominantly on the proposals for the reform of Structural and Cohesion Funds.
- 3.3 Three scenarios have been put forward to address the situation. In summary, these are:-
- (i) *The "Growth" Option* - This would see spending in existing Member States maintained at its current level, with the new Member States also getting substantial aid packages. To deliver this option a substantial increase in the budget for EU Regional Policy would be required and this option is not considered realistic.
  - (ii) *The "Status Quo" Option* - This is being developed by the European Commission. At present this would offer:-
    - (a) Objective 1 status to areas below 75% of the average GDP of the enlarged Union. On current figures, only Cornwall would qualify in the UK;
    - (b) An unspecified package of support for areas losing Objective 1 status particularly those who fail to qualify for Objective 1 status through the "statistical effect" of EU enlargement. In the UK this could include West Wales, Merseyside and West Yorkshire;
    - (c) A successor to Objective 2 of indeterminate financial size and detailed eligibility criteria.
  - (iii) *The "Repatriation" Option* - The UK Government in its consultation document proposes that:-
    - (a) Structural funds should only be available in the very poorest Member States - on current figures the ten new Member States plus Greece and Portugal;
    - (b) Elsewhere, including Britain, the national government alone would be responsible for funding Regional Policy, within broad policy parameters set at European level;

(c) The government promises to provide the resources to ensure that UK nations and regions do not lose out on what they have got from the EU.

- 3.4** The debate regarding both the Commission's proposals and those of the UK Government has been prolonged and extensive, largely because neither are sufficiently detailed to allow a firm view to be formed as to which option is most appropriate.
- 3.5** On the one hand, there is no doubt that East Ayrshire has benefited from the Structural Funds in the past and that EU Regional Aid has additionally promoted new forms of partnership working, has provided an element of stability due to the length of the programmes and has added to the visibility of the European Union at the local level.
- 3.6** On the other hand, the UK government's proposals have attractions in that they would appear to allow greater freedom to deliver regional aid according to domestic priorities, allow more flexibility to support other policy priorities, enable relevant market failures to be addressed wherever they occur, and ensure that local and regional measures with little impact on the wider EU economy can be approved quickly and with minimal compliance costs.
- 3.7** However, the Government's proposals cannot be properly evaluated until additional information is provided on issues such as the levels of funding that would be allocated to the devolved administration in Scotland and the time periods over which the funds would be made available. In addition detailed debate is required on how best to deliver any such additional funds.

#### **4 DEVELOPMENT OF A RESPONSE**

- 4.1** Officers of the Council fully participated in the development of responses to the consultation document from a number of representative bodies, including the Alliance for Regional Aid, the Coalfield Communities Campaign and the West of Scotland European Consortium. The Council was also represented at a National Conference on the EU Regional Policy held in London on 1 July 2003 and organised by the Alliance for Regional Aid.
- 4.2** The above informed the development of the Council's own response which concurred with the views of those groups namely that neither the Government's proposals nor the Commission's current thinking were sufficiently convincing to merit endorsement. The consensus view of the groups was that we should press for the best deal for our areas within whichever framework eventually prevails. Whilst this position is not entirely consistent with that of CoSLA it is considered the most appropriate taking into account the circumstances of East Ayrshire.
- 4.3** Given the continuing refinement of the respective cases of the UK Government and the European Commission, it was agreed that the Council's response should not be prepared until after the National Conference on 1

July 2003. In the circumstances, the response could not be presented to Committee prior to submission on 4 July 2003 but was prepared in consultation with key members of the Council, including the Leader and Chair of Development Services. A copy of the response is appended to this report.

## **5 FINANCIAL IMPLICATIONS**

5.1 There are no financial implications.

## **6 LEGAL/POLICY IMPLICATIONS**

6.1 There are no legal or policy implications.

## **7 RECOMMENDATIONS**

7.1 It is recommended that the Committee:-

- (a) notes the undertaking of the UK Government's consultation exercise on "A Modern Regional Policy for the United Kingdom", and
- (b) homologates the response prepared by officers and sent on 4 July 2003.

**Stephen Chorley**  
**Director of Development Services**

DAH/MB  
29 July 2003

### **BACKGROUND PAPERS**

1. "A modern regional policy for the United Kingdom" March 2003 HMSO

For further information on the contents of this report, please contact David Hewet, Senior Policy Adviser (Tel: 01563 554608).

**Implementation Officer: Dave Hewet**

If calling please ask for: Dave Hewet  
Direct Dial (01563) 554608 Fax: (01563) 576238  
e-mail: [dave.hewet@east-ayrshire.gov.uk](mailto:dave.hewet@east-ayrshire.gov.uk)

Our Ref: DAH/PM

4 July 2003

European Structural Funds Division  
Finance & Central Services Department  
Scottish Executive  
Victoria Quay  
EDINBURGH  
EH6 6QQ

Dear Sir

### **A MODERN REGIONAL POLICY FOR THE UNITED KINGDOM**

East Ayrshire Council welcomes the initiation of the debate on Regional Economic Policy through the publication of the consultation document "A Modern Regional Policy for the United Kingdom".

The Council has had the opportunity to contribute to the formulation of responses from a number of representative bodies including the Alliance for Regional Aid, the Coalfield Communities Campaign and the West of Scotland European Consortium. The Council generally endorses the responses from each of these organisations.

In summary, the Council supports the proposals in the Government's paper regarding a more flexible application of EU State Aids and Competition Policy and the reform of the European Investment Bank. In general the Council agrees that there is a need for the reform of the Common Agricultural Policy although the impact of any reform requires clarification.

The Council also agrees that there is a need for a strong and effective Regional Economic Policy, one that continues to positively support the restructuring of our less prosperous regions and that is sufficiently flexible to allow local partners develop and implement their own economic strategies.

East Ayrshire has benefited significantly from EU structural funds through the Objective 2 and Objective 3 Programmes and also through earlier Community Programmes such as RECHAR that allowed the development and realisation of regeneration strategies targeting areas of particular need.

The Regeneration of the area is a long term process however and it is vital that it continues to benefit from significant Regional aid support.

Further details of the Government's proposals as outlined in the Consultation paper are therefore required before their attractiveness can be properly evaluated including information on the levels of funding proposed and the time period over which the funds will be made available.

Under the proposal outlined in the consultation document the devolved administration in Scotland would receive an increase to support implementation of regional economic policies. The development of mechanisms to how best deliver any such funds would require to be subject to detailed debate.

Provision of additional funding to support the implementation of the recently prepared Economic Forum Strategies may be one option. These strategies fit with National Strategies, are locally led, are prepared on a partnership basis and reflect local economic circumstances.

Considerable expertise and experience has been developed in Scotland in delivering the EU Structural Funds and these strengths should be used to best effect in establishing any future delivery mechanisms.

Whilst it is important to consider the detail of the UK Governments proposals it is equally important that the Government fully participates in the debate on the Commissions current thinking to ensure that acceptable alternative proposals are negotiated in the event of the EU post 2006 policy more closely reflecting the existing model rather than the UK Governments proposed framework.

This includes, in such an event, securing a successor to Objective 2, with significant financial allocations to the UK. In addition there should be sufficient flexibility negotiated to allow the delivery of regional assistance outside of areas designated under any successor to Objective 2.

Yours faithfully

Stephen Chorley  
Director of Development Services