COSLA

<u>COSLA submission</u>
Lords Select Committee on the European Union
EU Financial Framework follow up inquiry
Call for Evidence

- The **Convention of Scottish Local Authorities (COSLA)** is the representative voice of all Scottish Local Authorities both nationally and internationally and it has long being advocating strong, consistent EU budgets in which local communities are given the means to prosper and where the partnership principle, whereby Local Authorities are fully involved in the design and implementation of the programmes, is fully applied.

- COSLA welcomes the opportunity to provide a follow up contribution to this public consultation on the future of the EU Budget. Since the proposal was tabled last June and the main draft regulations concerning the key funds have already been tabled since we have been able to discuss them in detail with our Councils, national and EU officials and MEPs in several occasions. Therefore we hope that the gathered evidence below is found useful for the Committee's inquiry.

1. Are the Commission's proposed expenditure ceilings appropriate, taking into account the pressures on so many Member States to pursue fiscal consolidation?

a) This is of course a political choice, one that needs based on financial and budgetary grounds, but inevitably it comes down to a political decision on whether the EU budget is the best place in which to allocate up to 154 billion euro of public money per year. As expressed in our earlier contribution this can be of course defined in terms of additionality (EU funds being able to deliver on outcomes that 27 domestic budgets cannot do separately).However this concept is wide enough, and as it is not articulated in the EU Law, so a decision would ultimately come down to a political judgment.
b) In terms of affordability, it is worth outlining that this year the UK Budget roughly amounted to 847 billion euro (thousand million) and its contribution to the EU, after the rebate, is around 12, 9 billion euro. This is a significant figure amounting, for sake of comparison, close to the total budget of Scottish councils. Conversely, the UK budget has many bigger headings than those. Also it is forecasted that Scotland will receive beyond one billion euro in regional and rural spend over the next EU Budgetary period and significantly larger amounts if counting CAP farm payments and other non-territorially earmarked spend from the EU thematic funds. All this to say that the figures, once put into perspective, it ultimately it comes down to whether the EU budget allocations do actually respond to EU-wide political and policy needs that the UK is prepared to support.
c) Concerning the ceilings, the Commission has introduced in its proposals a bit of political signposting. As the ceiling level is seen both by political actors and the media as one of the more visible and symbolic elements of the budget proposal, care was exercised for the existing maximum ceiling of 1.24% GNI to be respected while the actual budget in commitments are set as slightly lower level than the current one, even if the actual amount in absolute terms is larger.
d) In other words the current budget is, over seven years, €975bn, in commitment appropriations, (1.12% of EU GNI) the next Multi Annual Financial Framework asks for €1083bn (1.11%) over seven years. As a political signal to the group of net contributing Member States the actual expenditure to be paid per year (payment appropriations) is budgeted to be below the symbolic 1% of EU GNI or 972bn over seven years, which is actually slightly less than payments at the moment.
e) However to achieve these politically symbolic markers, the Commission now proposes that €58bn are placed outside the main budget headings and the above GNI thresholds. Irrespective of the technical reasons that might justify some of these amounts being moved outside the main budget, we are of the view it is necessary to look at all the funds that are put in and how it compares, in 2011 prices with the existing budget. The above figures point towards a slight increase (if €111bn euro can be considered a small amount) divided over seven years than the current total. At the

same time the EU is much larger than it was in 2004 and the needs in many headings have all but diminished. So, again, it comes down to a political judgement.

f) Finally, the above question 1 draws a direct relation between the budget ceilings and the domestic fiscal consolidation. For a direct correlation to exist in the future, this would imply that the current system where the lion's share of the EU budget comes from Member State (MS) contribution is continued.

g) By contrast, the Commission is proposing to reduce by a quarter the current levels of MS contribution and these be replaced by EU wide own resources sources. This is aimed at moving from the existing "fair return" logic. Obviously the funds would still come from the same citizens and businesses in each Member State (MS). Whether the UK and other MS prepared to allow the EU institutions to raise in a significant way their own sources of income is wholly a political decision, one that it very much remains to be seen whether it has any chances to be agreed.

2. What is the most appropriate basis for comparing the Commission's proposals with current expenditure?

a) The Commission tries to make the best case possible for its proposal. However it is not possible, only by reading the Communication, to compare like for like. To simplify our own assessment we went to the rather painstaking exercise of comparing each budget heading of the current budget, in commitment appropriations and at 2011 prices in euro, with their successor in each heading of the new proposal. It is perhaps a rough estimate but we believe sufficiently accurate to broadly show the direction of travel of the changes per item of expenditure, as it can be seen below:

b)

COMPARISON 2007-13 Budget and 2014-20 budgets (commitment allocations, 2011 prices)			
Heading	**Now**	**Post 2014**	**Comment**
CAP Pillar I farm payments	€300bn	€281bn	Decrease €19bn
CAP rural development	€96bn	€89bn	Decrease €7bn
Cohesion "Convergence" Objective	€283bn	€230bn	Decrease €53bn Includes Cohesion fund. Partly transferred to Transition objective below
Cohesion "Competitiveness" Objective	€55bn	€53bn	Decrease €2bn. Includes Lowlands and Uplands of Scotland.
Cohesion "Transition" Objective	n/a	€39bn	New. currently is phasing in and phasing out, but these are accountable as part of existing Objectives 1 and 2 Includes Highlands and Islands
Cohesion "Territorial Cooperation"	€9bn	€11bn	Increase €2bn
Maritime and Fisheries Fund	€6.2bn	€6.7bn	Increase €500m
Innovation	€2.1bn innovation (CIP)	€80bn	Increase €30m (approx). New Merged Fund Research and Innovation (€60bn more to be earmarked in cohesion funding)
Research	€50.5 research (FP7)		
SME support	n/a	2.3bn	was part of CIP, now separate programme
Transport	€8bn	€21bn	Increase €13bn Part of Connecting Europe (without counting 10bn Cohesion)
Energy	€0.73	€9.1bn	Increase €8bn. Part of Connecting Europe (without counting cohesion earmarking) Includes Supergrid, possible funds for local energy efficiency
ICT	€0.72	€9.1bn	Increase €8bn Part of Connecting Europe (without counting cohesion earmarking)
Environment LIFE	€2.1bn	€2.6bn	€500m increase (without counting the CAP and Cohesion ringfencing)
Climate Change	n/a	€800	New fund, part of the new LIFE programme

European Solidarity Fund	€0.5bn	€7bn	Increase 7.5bn outside the budget
Globalisation Adjustment Fund	€2.3bn	€3bn	Increase 700m outside the budget, current figures is counting unspent funds as of 211
PROGRESS programme	€0.63bn	€0.8bn	Increase €200m
Education	€6.9bn	€15bn	New joint Education Youth Sport Programme
Youth	€0.8bn		
Training	n/a		
Sport			
Citizenship	€0.2bn	€0.2bn	
Culture	€0.4bn	€1.2bn (part of Creative Europe)	Creative Europe. €900m increase
Media	€0.75		
Justice and Home Affairs	€5.8bn	€8bn	Increase €2.2bn
External issues	€55bn	70bn	Increase €15bn
EU Civil Service	€54bn	€62bn	Increase €8bn (includes schools and pensions)
Proportion of budget funded by Member States	*75%*	*50%*	*Currently only VAT and CAP duties are own resources of the EU budge, the rest comes from the MS budget on a GNI basis*
TOTAL	**€972bn**	**€1083bn**	**(€111m increase)**

Please note that not all programmes are included in the above budget chart, only the more important are highlighted, around €30bn is spent in smaller programmes on nuclear energy, criminal justice, etc. All figures are in 2011 prices.

c) The short reading of the above is that 111 extra billion of the overall size over the new period is proposed and an additional €138bn has been made available to fund new priorities on innovation, transport, external aid, etc. which are seen as more universally supported than other budget headings, particularly the two largest, cohesion and CAP. These two headings will see their budget size cut €24bn and €11bn respectively. The rest of the 111bn budget increase would come from the new own resources that is proposed. In other words this draft budget is a difficult balancing act aiming to address the concerns of all key constituencies involved in this discussion. In typical EU consensus-building fashion it tries to enable the progress of the core agenda of each main player while avoiding endangering their respective core values. However this difficult balancing act rests in the assumption that Member States would agree their contributions to the budget decrease by a quarter in exchange for the EU to have enhanced revenue raising mechanisms (own resources) that would cover the 11% increase foreseen over seven years.

3. What benefits, both financial and practical, will be derived from the Commission's proposals for simplification, particularly through the use of common strategic frameworks in research policy (Horizon 2020) and regional policy? Is the Commission's approach strategically justified, or is it a mere merging of funds? How can the approach be made to work in practice?

a) The Commission proposals towards integration and simplification through a Common Strategic Framework (CSF) are widely supported by everyone involved in this discussion, including COSLA.
b) In particular, it is to be strongly welcome the creation of the Common Strategic Framework covering Rural Development, Regional Policy and Fisheries funds it will ensure that funds are delivered in an integrated fashion locally. Indeed we have been working with the Commission on Integrated Local Development partnerships, including the Scottish Community Planning Partnerships, which we would be keen to see as a main driver of the future Scottish programmes.
c) However, it needs to be questioned the rationale of having TWO Common Strategic Frameworks, one for cohesion and another for Innovation when the Budget proposal also say that they expect the Cohesion funding still provide at least €60bn to innovation. At the very least there is a clear and as yet unresolved demarcation issue. However it could also bear the question on in spite of the stated aim of funding consolidation (and acknowledging the EU wide tendering of the new research H2020 programmes), why there are two very sizeable but separate EU funds (80bn and 60bn) dealing with innovation.

d) Thirdly, while the Cohesion Budget will spend a sizeable amount of resources on transport and energy, the little effort has been made for new Connecting Europe facility to be linked or even part of the above mentioned CSF. There is a fourth Common Strategic Framework dealing with Education, training, youth and sport: €15bn (a 68% increase).

e) This disconnect between these four Strategic Frameworks reflect not only practical reasons but crucially, inter-departmental arrangements rather than a policy rationale on the ground.

f) Even in the Cohesion-Rural-Maritime CSF the ringfencing of the European Social Fund (52% of allocations to prosperous regions) or the earmarking of up to 30% of CAP and cohesion to environmental purposes respond again more to balancing acts between Commission Directorates than a strict and cold assessment of spending needs.

g) Even delineation between the priorities of each fund, crucial to avoid overlapping and gaps in expenditure, remains sketchy. This was supposed to be resolved through the draft General Regulation tabled last October 6. However the "menu" of priorities for all funds proposed in its Art. 9 does not allow to relate this global menu with each of the eligible spending activities foreseen in the four fund-specific draft regulations (ERDF, ESF, EMFF, EAFRD), so further polishing is needed in the Common Strategic Framework proposal that will be launched end this year and subject to two months consultation, to which COSLA will participate.

h) In terms of implementation on the Regional-Rural-Maritime CSF, which is the one of more direct interest for local government, it is to be extremely welcome that the new Partnership Contract between the Commission and each Member State covers the above four funds, thus inciting each relevant government department to work with its peers from the outset. Furthermore the draft General Regulation's Article 5 clearly foresees that Local Government from across the UK should be involved also from the outset in these preparations, something we are waiting for central government to indicate the process.

i) However, the biggest breakthrough from Local Government, something COSLA has been actively campaigning for is the very detailed proposals in the Gen. Reg. over local development. An entire chapter (Ch. II) is outlined to foresee how all these EU rural, regional and maritime funds can be targeted to, and eventually directly managed by local communities for the design implementation of multi-dimensional and cross-sectoral EU funded strategies and programmes. This coupled with other instruments such as the Integrated Territorial Instruments and the Joint Action Plans, would allow, if Governments allow for it, for these EU funds put together in an integrated way by local communities to respond to local needs on the ground.

4. Is the proposed distribution of funds between and within the five main expenditure headings right? In particular, do the proposals offer enough to fulfil the aims of the Europe 2020 strategy? If you call for more spending in one area, please say whether you would expect a net increase or an offsetting saving elsewhere.

a) We have already outlined in the chart of Question 2 the main shifts between the existing and proposed EU budget headings. As outlined above the proposal is the result of the Commission trying to address a wide variety of constituencies and inter-departmental balances. Equally as outlined in the above question, the existence of four Common Strategic Frameworks does amount to an unfinished work in progress to achieve proper consistence, clear delineation and effectiveness of the several streams of EU funding.

b) As asking for further reallocations between funds could prove technically and politically difficult given that we only have a year to get the overall Budget approved before starting the specific spending plans per country, region and per programme rather than a attempting a radical overhaul at this stage, which could be impractical if the main goal is to have the funds up and running on 1 January 2014, what can and should be attempted is a clear delineation and demarcation on the funds. For instance, if both the new Horizon2020 research programme (€80bn) funds basic research, then the about 20% that is estimated to be used for innovation-related purposes of the total €183bn that would be available through European Regional Development Fund (ERDF) should be used for different purposes in our outside the innovation chain. For instance, linking the innovation coming up from the local research community to generate wider economic return to the surrounding local economy. The same can be said from similar areas of potential overlap on energy and transport (between ERDF and Connecting Europe), social inclusion (ESF, ERDF, CSF Education), SME support (EAFRD, ERDF, H2020), not to speak on climate and environment (CAP Pillar I, EAFRD, ERDF, LIFE). Finally the Common Strategic Framework on Rural, Regional and Maritime Funding clearly needs the priorities better demarcated than what the General Regulation menu is proposing.

c) This can be undertaken through the coordinated amending of the respective draft Regulations as they go through the legislative pipeline and, as regards to the Regional and rural funding, through the actual Common Strategic Framework proposal to be tabled, and open for public consultation in the next few weeks.

d) Finally, as it could not be otherwise COSLA strongly request the UK to support the transition regions category foreseen in the EU budget as this will enable at least a dozen of the poorest UK regions, including the Highlands and Islands of Scotland, to cope with the tough economic situation that they face at the moment.

5. Do the proposals live up to the aims set out in the Commission's *Budget for Europe 2020* of: focus on delivering key policy priorities; focus on EU added value; focus on impacts and results; and delivering mutual benefits across the EU?

a) As outlined in the two previous questions, the proposals move in the right direction, but they are only halfway there, particularly as regards to delivering integrated and consistent approaches on the ground.

b) Equally additionality is still a wide concept that can only be partially measured at this stage. Nevertheless the move towards outcomes does clearly signify progress towards proving additionality of EU funds, which as we said it is the clear criteria to justify specific investments being made at EU level.

c) There has been some good progress in terms of moving from an output based policy, where the priority was to ensure that the money was spent according to the rules, towards an outcome based policy delivery, where the ultimate purpose of the funds is to achieve tangible results on the ground. This is most particularly the case of Cohesion Policy than other areas where the move is still more tentative. However even in Cohesion Policy the approach is more open ended in the draft legislation than in the original drafts. The General Regulation and those governing the four funds do contain annexes where a performance framework is introduced. Member States and the Commission need to agree to a series of results to be achieved and measured at several stages of the programming period, with a performance reserve awarded to the more performing ones. The approach is however tentative and less detailed than the Commission original plans simply because very few governments operate domestically using outcomes. There is an issue here as the outcomes to be achieved to deliver Europe2020 will be defined, negotiated and assessed at UK level in the Partnership Contract with the Commission. In spite of assurances from the Commission that the UK Partnership Contract will in effect be a collection of national chapters for each of the home nations, the need for the UK to report and deliver Europe2020 objective through the EU funds might bring to a more centralistic dynamic that would be perhaps desirable. This is why COSLA would be keen to see article 5 of the General Regulation provisions for partnership negotiations between the central the devolved and the four local government administrations to be fully exploited so that whatever outcomes the UK signs up to, they would have been agreed and understood by all concerned governance levels rather than be imposed from the top down.

d) There are also internal constraints to how far the Commission can move towards outcomes. For instance it is extremely interesting their proposal to create Joint Action Plans to deliver part of the

Structural Funds, such Plans would keep audit and reporting bureaucracy to a minimum as they would be measured mainly on whether they have delivered over a given period previously agreed. However, the extensive use of this and other new schemes will very much depend on whether the EU Court of Auditors would be comfortable with this new, and in their eyes, potentially more unreliable delivery method. The Court's views on these proposals are not know yet adding an element of incertitude.

e) Finally, COSLA is keen to assist the UK Government in defining an outcome based system to report and measure the use of EU funds throughout the UK. Scotland is rather unique in Europe in having developed Single Outcome Agreements (SOAs) between national and local authorities for the delivery of domestic policies. There is ample scope for the EU fund, both in Scotland and elsewhere in the UK to draw from the lessons learnt in developing the SOAs in Scotland.

6. What is your assessment of the Commission's proposals for expenditure outside the MFF framework?

a) We already outlined in the above answer 1.d that while there might be technical reasons to put part of the proposed expend outside the main headings we believe that any assessment of the budget needs to take into account the whole amounts as we have attempted ourselves.

7. What is your assessment of the Commission's proposals to grant the EU more 'own resources' and of the choices advocated (a new VAT resource and/or a financial transactions tax)?

a) As indicated in answer 2.c, this is a crucial element of the proposals as if MS do not agree for a significant expansion of the own resources system the whole carefully crafted budget proposal unravels, forcing unwelcome cuts in some areas dear to local government such as Cohesion and possibly across all headings, including those that have been proposed drastic increases. Ultimately is a political decision and a long term policy consideration up for each MS government to consider.

8. What is your assessment of the likely impacts of the Commission's proposed restructuring of abatement mechanisms on the UK or other net contributors?

a) This is a question that as local government we will defer to consider to the appropriate instances.

9. What is your assessment of the innovative financing instruments proposed by the Commission?

a) On paper, they mean progress. Creating a uniform and standard legal basis for all purposes of financial engineering would remove the tentative and quite slow implementation of the existing tools. A proof of this is that only in mid-December 2011, four years after the official start of the programmes the first financial engineering tool worth €50m was unveiled in Scotland, with many other countries further behind.

10. What effects could the development of the Eurozone, in response to the Euro area crisis, have on the future EU budget?

a) While agreeing to an EU budget is never easy, this time adds an unprecedented variable of the uncertainty. However as we are aware that detailed negotiations among Member States and MEPs on all these programmes are taking place irrespective of this wider considerations, it is the intention of COSLA to continue actively engaging and making the case for solid provisions that will deliver efficient EU-funded local development policies in Scotland.

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December 2011