

EU Funding in Scotland 2014-2020

Purpose

1. To update the Executive Group on the on-going negotiations regarding the role of Councils in delivering the EU 2014-2020 funding programmes proposed for Scotland after the EU Budget deal in February and the continuing discussions on the Partnership Agreement for Scotland governing the spending priorities post 2013/14.

Recommendations

2. The Executive Group is invited to:
 - i. Note the ongoing discussions with the Scottish Government to define the role of councils and funding priority proposals in 2014-2020 EU Funding programmes;
 - ii. Agree the key messages on these negotiations moving forward, as proposed in paragraph 17;
 - iii. Agree the key messages on the review Regional State Aid Guidelines, as proposed in paragraph 21; and
 - iv. Note potential impact on Scottish Structural Funds budget of EU budget discussions.

Background

3. European Structural and Investment Funds are the main instrument for supporting social and economic cohesion across the European Union. These EU Regional, Social, Maritime and Rural Development funds provide a mechanism for reducing disparities between regions while aiming to increase employment and economic growth across Europe.
4. The EU Budget 2014-2020 was finally agreed at the February 8 EU Summit in Brussels. Thus with the UK Rebate duly safeguarded (€3.9bn a year) and the final budget of €960bn closer to the UK proposal than it was expected. The UK rebate has been kept intact.
5. It is in fact €123bn smaller than the Commission proposal, basically making the EU Budget frozen at 1% of GDP. With more population covered and inflation it is a clear reduction on their last budget.
6. However the funds most directly concerning Councils, the Structural and Investment Funds (including Rural and Maritime Funds) have broadly kept to the figures that the Commission proposed (€2bn less than in the current period) which is remarkable as they were expected to suffer severe cuts. Agricultural and Structural spend will amount to 70% of the EU Budget.
7. For Scotland the deal is to be welcome as it both ensures that the expected one billion pounds in EU Structural and Rural development funds that will be earmarked to the Scottish Government to manage has been safeguarded. Equally the Transition Status for areas such as Highlands and Islands has also been kept. This new category of region (between 75% and the 90% of EU per capita income average) was long in doubt. There is however, a key issue on how the UK funding allocation will be distributed internally. The EU budget agreement included an apportionment formula per Member State that gave a small but additional weighting to more populated areas such as the South West of

England. The Scottish Government supported by other Scottish bodies is already calling for using an apportionment formula similar to the one used in the current period, so that no part of the UK loses out disproportionately.

Partnership Agreement

8. For Scottish Local Government, the priority is now to make rapid progress in the ongoing negotiations on the Scottish Partnership Agreement 2014-2020 which will bring together the spend in Scotland of the European Regional Development Fund (ERDF), European Social Fund (ESF), European Agricultural Fund for Rural Development (EAFRD), European Marine and Fisheries Fund (EMFF) a combined pot of over 1.15bn until 2020.
9. Discussions at officer level have continued and the COSLA December 2012 Convention had a detailed discussion on this matter. The Convention welcomed the assurances given by Housing Minister Margaret Burgess MSP regarding COSLA's continuing involvement in finalising the partnership agreement and in particular the fact that the questions of whether the Highlands and Islands region would keep a separate Operational Programme was still under consideration. The Minister confirmed this through a letter to DES Spokesperson in early December.
10. Since then a range of discussions have been held by officers to provide additional views and review progress. Officer involvement is currently undertaken through the High Level Group of which COSLA is the representative of local government, the CAP Stakeholder Group and Maritime Funds Group as well as for the Structural Funds the Evaluation Group where individual Council practitioners are participating as well as ongoing bilateral exchange of views and intelligence and a range of ad hoc seminars. There is a standing offer to civil servants regarding local government officers' availability to engage in thematic groups such as the previous groups we participated or facilitated which led to the development of the first draft of the Scottish Partnership Agreement.
11. The UK and the Devolved administrations have agreed in early December how to organise the drafting of the UK Partnership Agreement (of which the Scottish Partnership Agreement is a part). Work on the preliminary evaluations and other technical work is being undertaken. Now that the EU Budget is agreed and the key provisions in the EU legislation (Regulations) are being agreed by MEPs and Council of Ministers work needs to speed up in the spring to decide both the priorities and the delivery methods, including those aiming at local development.

Priorities and Delivery Structures

12. Discussions are moving towards focusing investment into three large thematic blocks within the 2014-2020 EU Funds Partnership Agreement for Scotland:
 - Growth and Innovation
 - Environment and Resource Efficiency and Low Carbon
 - Local Growth and social inclusion
13. It is particularly welcome the recognition that Local Growth and Social Inclusion should be a pillar of the new programme. Under some measures it could be anticipated that this theme could amount to one third of investments. However these themes are still too large and further lobbying and work is required to ensure that Local Growth and Social Inclusion thematic actions are targeted to empower local communities.
14. In terms of delivery, there is growing recognition in these discussions that Community Planning Partnerships as a driver for local economic development should be a key

component of the next programmes. Equally the link between Local Action Groups of rural Development and CPPs is still being considered.

15. Also there is consideration whether loan instruments, Integrated Territorial Investments in urban areas and Joint Action Plans (outcome based delivery) could be used. However this depends on additional guidance that is being obtained in Brussels, a process that COSLA is also assisting on through our leading of the CEMR (Council of European Municipalities and Regions) Cohesion task group
16. After the EU Budget has been agreed and the key EU legislation is being finalised work will be stepped up in March and April, with the draft Partnership Agreement being finalised through a public consultation in the spring. The strategic choices of the Partnership Agreement will be implemented through the Operational Programmes. The plan is to have them finalised in late summer so that they can be approved end 2014, thus allowing the new programmes to start by June 2014.

Key Lobbying Messages

17. In view of the above, and in order to guide our discussions in the coming months, Members are invited to discuss, and eventually agree, the following negotiation points:
 - i. COSLA welcomes a clear focus on Local Growth and Social Inclusion as one of the three pillars of the Scottish Partnership Agreement. This theme should be mainly devoted to local priorities and enable local decision making.
 - ii. We would be keen to have reassurance of local government participation in the Innovation and Low Carbon themes
 - iii. Local Authority involvement, in particular through CPPs, should be meaningful both in deciding and delivering local priorities. The future rules should allow Councils, individually or collectively, to put forward other instruments such as Integrated Territorial Instruments or Joint Action Plans.
 - iv. The new EU Regulations foresee a strong and legally binding involvement of local government in deciding, managing and implementing the EU funds. COSLA welcomes these new provisions as a crucial step to ensuring that local government is central to the decisions on EU funds.
 - v. Local Government will work together with the Scottish Government, MEPs and stakeholders to ensure that the apportionment of funds inside the UK uses a formula similar to the one used in the current period, so that no part of the UK loses out disproportionately compared to allocations received during this period.

Regional State Aid

18. Last month the European Commission launched a consultation on the new guidelines on Regional Aid for 2014-2020 periods. They set the limits of the subsidies that the public sector can give from its own budget to private companies to foster local development. These rules exist to prevent unfair competition and discrimination between companies. These guidelines complement the EU Structural Funds regulations that go back to back the Regional State Aid.
19. Like in every period, the Commission stance is particularly hard by trying to limit as much as possible how much state aid the public sector can give. Their latest proposal would not allow companies of more than 250 employees to receive aid. Equally they would be keen to reduce the areas that can be designated as eligible for this aid (areas with low per head

income, high unemployment or remote). In the UK this might result that eligible areas would amount to 13.9% of the UK population rather than 19% at the moment. Equally transition regions such as Highlands and Islands do not have an automatic complete coverage, but a number of sparsely populated areas within H&I would be covered: Caithness & Sutherland and Ross & Cromarty; Lochaber, Skye & Lochalsh, Arran & Cumbrae and Argyll & Bute; Eilean Siar (Western Isles) .

20. The rest of areas would be designated by the UK within the context of an upper population limit set by the European Commission. The current aid map for Scotland designates patches of the West of Scotland, central belt area (NB a great part of the Clyde valley LAs and the North, East Ayrshires), southern half of Fife and Dundee (plus Highlands and Islands) as eligible areas.
21. The consultation is taking place at the moment and officer-level exchanges are being made in Scotland and Brussels both formally and informally. Therefore members are invited to agree the following lines:
 - i. COSLA welcomes the opportunity to contribute to the ongoing discussions on Regional State Aid Guidelines. It is our view that these Guidelines must remain an instrument available to public authorities to foster local economic development.
 - ii. Precisely at a time of reduced resources we disagree with Commission's proposal to artificially limit the ability of public bodies to support local companies.
 - iii. We would be keen that the levels and coverage of support is kept at least to current levels. Equally we see the limitation of support to companies only on the basis of number of employees as arbitrary criteria, as number of employees does not reflect the financial status of a company or their importance for local growth.
 - iv. We welcome the designation in the draft Guidelines of part of the Highlands and Islands as pre-designated areas. However we would welcome that the State Aid Guidelines map matches that of the regions in Europe with Transition Status such as the Highlands and Islands.
 - v. We would be keen that the designation of areas is based on domestic, rather than EU-wide disparities and that the most recent available data is used as to better reflect changes in economic performance of many areas. For that reason we welcome the mid-term review in 2017 to ensure that the areas reflect levels of prosperity.

Conclusion

22. The Executive Group is asked to endorse the on-going work with the Scottish Government on spending priorities for the 2014/20 EU funding programmes COSLA will continue working with Councils in order to Government, Commission and MEPs in order to secure a deal in relation to Regional State aid consultation.

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