Local Government Group

European and International Programme Board

19 July 2011

Item 2

European economic and skills development funds

Summary

EU structural funds are worth well over £8 billion over the 2007-2013 period, with further available through the EU Rural Development Programme for England, typically funding economic and skills development activity.

This paper updates on the debate on their future, and seeks Member comment on LGG next steps.

Recommendation

The Board are asked to comment on the paper.

Action

Officers to progress proposed next steps subject to Members feedback.

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European economic and skills development funds

Background

1. European Union structural funds typically support economic and skills development activity, and are regularly accessed by local authorities to help realise local ambitions. They include the European Regional Development Fund (ERDF) and the European Social Fund (ESF), and transnational co-operation funds. The funds are worth over £8 billion to the UK between 2007-2013 period, which, once match-funded, represents a potential total investment over £16 billion. Further investment opportunities are available to councils through the Rural Development Programme for England, and a range of thematic funds. Local authorities are key partners in these funds, holding strategic, support and delivery roles.

The issue

2. The European institutions are entering a critical point in the design of funding programmes for 2014-2020. The European Commission published EU Budget proposals on 29 June, with further detail on structural funds expected in the autumn 2011. In Whitehall, government has a good degree of discretion in arranging and managing the structural funds in England, and is beginning to consider delivery, and the role of local authorities, in the 2014-2020 funds.

EU Budget and structural funds - top issues for local authorities

3. This paper updates Members on emerging issues for local authorities and seeks comment and endorsement on Local Government Group's lobbying and support activity during the negotiation and establishment of these funds.

4. **Less money for the UK.** The amount received by the UK is likely to fall, as GDP is higher than in other Member States. The overall budget for the structural funds at EU level will remain roughly the same (€376 billion); the greatest proportion will be earmarked for poor areas below 75% of the EU GDP average. It is unlikely that there will be any areas below 75% GDP in England, possibly one in Wales. Nevertheless, the levels of total investment will still be significant, and all areas will continue to have at least some access to funds, something that the LGG helped develop consensus for. UK currently receives €9.4 billion in the 2007-13 round. Over the course of negotiations the LGG will make the case for a fair return to places that need it.

5. **New opportunities for some places**. There is opportunity for some areas of England to benefit from greater levels of structural funding. In the current programme, areas were either identified as rich (competitiveness) or poor (convergence) with some phasing in areas in between, receiving levels of funding accordingly. From 2014 it is proposed a new transition category be created between the two, at the level 75%-90% GDP, which would receive greater levels of funding than competitiveness areas. Some initial forecasting suggests areas that may benefit include: Tees Valley, South Yorkshire; Merseyside; Lincolnshire; Shropshire; Cumbria; Devon; Durham; Cornwall and areas of Wales. At this stage, this is speculative. All other areas, with a GDP above 90%, will continue to benefit from competitiveness funding as they do now. The LGG will begin to work with partners to explore what areas might be eligible for what level of funds.

6. **Tightening priorities.** Proposals aim to target structural funds at a fewer number of EU priorities. Competitiveness and transition areas will be required to focus economic development spending (ERDF) on energy efficiency, renewable energies, SME competitiveness and innovation. It is also proposed at least halve of structural funds must be spent on skills development projects (ESF) in next programme round. LGG are concerned that ERDF spending in England can only fund three priorities, and that ESF be less centrally driven than it is in the current programme, arguing flexibility on local targeting.

7. **Stronger performance management.** The EU will negotiate a partnership contract with the UK government, setting out a commitment for spending structural funds to address priorities. Progress will be assessed through a performance framework measuring outcomes. The contract will likely include agreed conditionalities aiming to improve the effect of funds; for instance they might require certain administrative arrangements be in place before funds are awarded to projects. LGG support the focus on outcomes, should systems must not marginalise or burden councils.

8. **Rural development.** The rural development element of the Common Agricultural Policy (CAP) will receive €89.9 billion from 2014-20, less than the current round, and will be subject to performance and conditionality measures like structural funds. Funding for farm payments is proposed at €281.8 billion, roughly the same. The EU will, however, make proposals permitting flexibility between the rural development and farm payment funds. LGG continue to argue rural development programmes receive a larger proportion of funds.

9. **New funds for research, infrastructure and education.** A range of expenditure lines will be integrated into three new EU-wide programmes: a ‘Connecting Europe Facility’ is proposed to offer €40 billion into transport,

energy and ICT infrastructure projects; 'Horizon 2020' will integrate a range of research and innovation funds into a single €80 billion programme; and a single education and youth programme of €15.2 billion will integrate the range of youth development, learning and exchange funds. The LGG has led the call for integrated programmes, but warns against sectoralisation, a co-ordinated focus on place is essential.

10. **More coordinated spending.** A common strategic framework for ERDF, ESF, the rural development programme will aim to join up the strategic ambitions of the different funds, as driven by the EU2020 strategy. The LGG welcomes alignment, which must translate into genuine strategic and operational coordination on the ground.

11. **Financial engineering instruments.** Proposals place more emphasis on using the EU budget to leverage additional private sector investment. LGG welcome further exploration where they add value, and do not unduly distract the focus away from grant funding.

12. **Simplified administration.** Proposals aim to simplify, speed up and improve administration and delivery. The LGG continues to call for simplification.

13. **Negotiation timetable.** Proposals must be agreed unanimously by Member States, who are working towards an agreement for the end of 2012. Alongside this, important detail for each of the individual funds will be published in the autumn 2011, and Government is beginning to plan how funding programmes will be administered in England.

Local Government Group activity

14. Members are asked to comment on some of the streams of LGG activity that take forward the Local Government Group objectives for protecting investment, establishing locally responsive funds, and moving towards joining-up spending at the local level:

15. **Continued political and officer engagement**. The legislative process for negotiating and establishing the EU funding programmes is lengthy and involves many interests. Collectively, Members of the European and International Programme Board and Economy and Transport Programme Board have now opened discussions with the political leadership of the UK Government and European institutions. This includes meetings and correspondence with the European Commissioner, the European Parliament, and the responsible Ministers at DCLG, DBIS and DEFRA. Further engagement will be necessary as the legislation is negotiated up to 2013, particularly once

the EU Budget proposals and Structural Fund proposals are announced over the course of 2011.

16. **Cross-Whitehall initiative on future spending models**. The LGG has initiated thinking with Government departments – including DCLG, DBIS, DEFRA, DWP and HMT - exploring how local partners might help lead the delivery of European programmes in the future. Local leadership will be a significant contributor to this discussion, and as a part of this work the LGG has worked with 5 local areas to contribute thinking on how they might participate to the operation of European programmes, addressing two questions:

    16.1 How local areas can help future European programmes address the specific needs of local communities and businesses, increasing the value for money of these investments; and

    16.2 How European programmes can be organised in England to achieve this, while ensuring delivery is cost-effective and compliant with EU regulation.

17. The local contributions have been discussed with the government working group, and form the basis of activity moving forward and some more detailed lobbying principles supporting it. For instance we could look to explore how these models can be tested and piloted locally. The five areas involved are: Cornwall and Isles of Scilly (in partnership with the LEP); Greater Birmingham and Solihull (in partnership with the LEP); Kent, Greater Essex and East Sussex (in partnership with the LEP); Liverpool City Region, and; Newcastle City Council.

18. **EU funding survey of local authorities**. In May 2011 the LGG launched a survey of local authorities to capture local authority concerns on the availability of match-funding in the remainder of current ERDF programmes. Lead members of the Economy and Transport Board have discussed concerns over the availability of match-funding with the CLG Minister. It was agreed that, on the back of the survey results, LGG and CLG officers will take forward recommendations on the match-funding issue through a special focus group with central, local government and private, third sector partners.

19. The survey also gauges local authority opinion on the kind of roles councils would want to play in the future programmes. The results will provide vital evidence that reinforces the need for future programmes to be negotiated and established in an all together more local way. Emerging headline results will be tabled at the Programme Board meeting; full analysis will be available soon.