

AGENDA MANAGEMENT SHEET

Name of Committee **Cabinet**

Date of Committee **4th May 2006**

Report Title **Government Consultations on EU Funding Proposals for 2007-2013 and the UK's New Assisted Areas Map**

Summary

The Government is consulting on its proposals for the new Structural Fund programme, new England Rural Development programme and new Assisted Areas map. This report summarises the main issues in the three consultations and requests Cabinet support for the steps being taken to maximise the benefits of future regional policy and funding for Warwickshire.

For further information please contact

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Would the recommended decision be contrary to the Budget and Policy Framework? ~~Yes~~/No

Background Papers Government consultation documents available on request.

CONSULTATION ALREADY UNDERTAKEN:- *Details to be specified*

- | | | |
|--|-------------------------------------|--|
| Other Committees | "> <input type="checkbox"/> | |
| Local Member(s)
<small>(With brief comments, if appropriate)</small> | <input type="checkbox"/> | |
| Other Elected Members | <input checked="" type="checkbox"/> | Councillor P Barnes)
Councillor M Jones) for information
Councillor P Morris-Jones) |
| Cabinet Member
<small>(Reports to The Cabinet, to be cleared with appropriate Cabinet Member)</small> | <input checked="" type="checkbox"/> | Councillor C Saint |
| Chief Executive | <input type="checkbox"/> | |



- Legal I Marriott - agreed
- Finance
- Other Chief Officers
- District Councils
- Health Authority
- Police
- Other Bodies/Individuals

FINAL DECISION **YES/NO** (*If 'No' complete Suggested Next Steps*)

SUGGESTED NEXT STEPS :

Details to be specified

- Further consideration by this Committee
- To Council
- To Cabinet Future reports – in due course
- To an O & S Committee
- To an Area Committee
- Further Consultation

Cabinet - 4th May 2006

**Government Consultations on EU Funding Proposals for
2007-2013 and the UK's New Assisted Areas Map**

**Report of the Strategic Director of
Environment and Economy**

Recommendation

That Cabinet:-

1. Supports the steps being taken to maximise the benefits of future regional policy and funding for Warwickshire.
2. Requests further reports as the new European Union (EU) funding programmes and new UK Assisted Areas map develop.

1. Background

- 1.1 After much uncertainty, European Union (EU) heads of state and government agreed a budget for 2007-2013 at December's European Council meeting. The European Parliament gave its agreement on 4th April 2006. Total Structural and Cohesion funding will be approximately €308 billion. 82% of the funding will go towards the Convergence Objective for the new member states and other poorer regions; 16% towards a new Regional Competitiveness and Employment Objective for all other regions and 2.5% for a new European Territorial Co-operation Objective.
- 1.2 The Department of Trade and Industry (DTI) estimate that the total Structural Fund allocation for the UK for 2007-2013 will be €9.4 billion (compared to €18 billion for 2000-2006). Out of this, €2.6 billion is already allocated to Cornwall, West Wales and the Valleys, and the Highlands and Islands as the UK's 'convergence regions'. The remaining €6.2 billion (£4 billion) will be for a Regional Competitiveness and Employment programme. This will replace the existing Objectives 2 and 3 and will support European Regional Development Fund measures (ERDF – infrastructure investment, business support, environmental improvements etc) and European Social Fund activities (ESF – employment, training etc). It is for the UK Government, in agreement with the European Commission (EC), to decide how this funding is allocated.

- 1.3 In addition, EU Agricultural Ministers agreed a new European Agricultural Fund for Rural Development (EAFRD) in June 2005. This will fund measures designed to improve the competitiveness of farming and forestry; improve the environment and countryside; and enhance rural quality of life and diversification of the rural economy. Agreement on the new EU budget means that the new England Rural Development Programme (ERDP) is expected to be worth approximately £24 million to the West Midlands over the seven year period.
- 1.4 Finally, new EU regional aid guidelines will apply from 2007-2013. These rules define areas most in need of economic development where aid may be awarded to businesses for the purposes of regional development. The UK's 'Assisted Areas' include 11 wards in Warwickshire. Under new guidelines, UK population coverage is being reduced along with that for other 'old' and richer member states. Certain defined priority areas in the UK still qualify automatically. Other areas face a reduction in, or loss, of coverage. Warwickshire, in particular, could lose all its coverage.
- 1.5 The Government has launched three separate, but related, consultations. The first is on the draft National Strategic Reference Framework (NSRF), which outlines the UK's broad strategy for use of its Structural Fund allocation. The second is on its proposals for a new ERDP. The third is on the geographical units and indicators that should be used in designating the UK's new Assisted Areas map.

2. National Strategic Reference Framework (New Structural Fund Programme)

- 2.1 DTI is consulting on its draft NSRF. The NSRF, which is a requirement of the new EU Regulations, will establish broad priorities for the UK's new Structural Fund programmes. The consultation also seeks views on the Government's proposals for distributing its allocation under the new Regional Competitiveness and Employment programme and the administrative arrangements for delivering the funding. The consultation runs until 22nd May 2006.
- 2.2 Officers in the Regeneration Strategy and Europe Group have been actively working with partners to develop the region's approach to the new programme. The West Midlands Regional Assembly's European and International Affairs Partnership (EIAP) recently agreed a set of principles as the basis for the region's response to the NSRF consultation. These include:-
 - (i) All funding (ERDF and ESF) and their operational programmes should be managed 'by the region for the region' – The NSRF proposes that ERDF should continue to be delivered regionally and ESF nationally. The EIAP has agreed that the region should make the case for regions also to be able to develop their own ESF programmes within the context of national strategies. This would allow resources to be better targeted to meet the region's specific needs and strategies and would also give greater responsibility to the region.

- (ii) There should be maximum flexibility at regional level, including responsibility for ensuring alignment with related funding streams. The NSRF proposes that ERDF should be aligned with Regional Development Agency's (RDAs) 'Single Programming Budget' and other funding such as the Neighbourhood Renewal Fund and Local Enterprise Growth Initiative. It also proposes that ESF should continue to be aligned with domestic employment and skills funding, including via Jobcentre Plus and the Learning and Skills Council in their capacity as co-financing organisations. Whilst simplification is to be welcomed, there is a danger that local flexibility could be lost in the process.
- (iii) The combined ERDF and ESF programme should be aligned with the West Midlands Regional Economic Strategy and the Regional Spatial Strategy.
- (iv) Government Office or another 'arms length' organisation should continue to manage the programme. The NSRF states that the current devolved and decentralised approach to regional policy will be retained and seeks views on how to improve co-ordination between the Structural Funds and domestic priorities. RDAs will be responsible for providing the policy framework for future ERDF programmes. A management role for RDAs also seems to be under consideration.

2.3 New EU Regulations strengthen the strategic focus of future spending on the Lisbon agenda for jobs and growth and the Gothenburg environmental agenda. The draft NSRF identifies broad priorities for the UK in line with the Community Strategic Guidelines at EU level and the Lisbon National Reform Plan. These are:-

ERDF priorities

- (i) Promoting innovation and knowledge transfer.
- (ii) Stimulating enterprise and supporting successful business.
- (iii) Ensuring sustainable development, production and consumption.
- (iv) Building Sustainable Communities.

ESF priorities

- (i) Extending employment opportunities.
- (ii) Developing a skilled and adaptable workforce.

2.4 Government Office is co-ordinating a Steering Group tasked with compiling the region's new Operational Programme. Advantage West Midlands (AWM) is providing the policy lead. Senior officers are also drawn from the Regional Assembly, the Learning and Skills Council, Jobcentre Plus, the West Midlands Higher Education Association and the Regional European and International Officer Group/ the West Midlands European Rural Group. This Group will oversee contributions from working groups and partners. It has been agreed that the EIAP will provide the central conduit for strategy development, with approval via other Boards and decision-making bodies as appropriate.

- 2.5 The Regional European Funding and Policy Group's Cohesion Sub Group has produced a draft paper setting out some initial thinking on how the region would use the new funding and making a case for significant access to the resources. The paper, which is based on the RES and other regional priorities in the context of the Lisbon Agenda and the EU guidelines, will form the starting point for the work of the above Steering Group. It will also serve as the region's policy input to the NSRF consultation.
- 2.6 The draft NSRF confirms that all parts of a region will be eligible for funding and that there will be no 'maps' – in contrast to the current Objective 2 programme. Instead, it is for regions to determine how to concentrate and target resources in support of the Lisbon agenda and their regional strategies. It is also for regions to determine a balance between investment in 'opportunity' and 'need'. Regional thinking is that the programme should be shaped by AWM's key drivers – the Regeneration Zones and High Technology Corridors geographically and the Clusters thematically. There will also be a strong urban focus, including on the City Region agenda.
- 2.7 A regional response to the NSRF consultation is currently being prepared as outlined above. Officers in the Regeneration Strategy & Europe Group are working to ensure that it reflects sub-regional and Warwickshire interests. Officers are also working through CSW Partnerships and the Coventry and Warwickshire Sub-Regional Group to ensure that the region's new Operational Programme takes into account sub-regional and Warwickshire priorities.

3. New England Rural Development Programme

- 3.1 The Department for Environment, Food and Rural Affairs (DEFRA) is consulting on its proposals for a new ERDP. The consultation sets out DEFRA's proposed national strategy for England; including how the EAFRD will be implemented, the context for assisting rural development and what measures will be given priority. The consultation runs until 22nd May 2006.
- 3.2 The priorities for funding focus on three EU objectives for rural development (known as 'Axes'). These are:-
- (i) Axis 1 – Improving the competitiveness of the farming and forestry sectors.
 - (ii) Axis 2 – Improving the environment and countryside.
 - (iii) Axis 3 – Rural quality of life and diversification of the rural economy.
- 3.3 In line with the Government's commitment to Environmental Stewardship, it is anticipated that 80% of the funding will go towards Axis 2, with 10% respectively on Axis 1 & 3. Natural England (NE) will be responsible for delivering Axis 2, whilst AWM will be responsible for delivering Axis 1 and 3. The LEADER programme, with its focus on bottom up project delivery, will no longer be a separate programme but will become integrated into the ERDP, supporting all 3 axes.

3.4 The Regeneration Projects Manager is co-ordinating a formal response on behalf of Warwickshire County Council (WCC). In addition, as a member of the 'Rural Forum for Coventry, Solihull & Warwickshire', WCC is providing comments for a sub-regional response, as well as feeding into the response by the West Midlands Rural Affairs Forum. WCC is also represented on the European Rural Group, which is working to co-ordinate the region's response to the new programme. The key issues for WCC are:-

- (i) 'Demonstrable and significant need' – The programme, amongst other things, aims to focus funds on areas of demonstrable and significant need. There is a concern amongst sub regional partners that this may exclude small pockets of deprivation. Partners are therefore keen to ensure that there is local and sub-regional flexibility to influence priorities and implementation. Warwickshire is fortunate in having an effective sub-regional partnership, the 'Rural Forum for Coventry, Solihull & Warwickshire', and a Rural Hub, both of which are well placed to assist local delivery, along with WCC and other partners.
- (ii) Biomass – There is a very strong emphasis in the document on biomass, but little consideration of the contribution other bio fuels and energy crops could make to rural development.
- (iii) Improving economic opportunity, skills and training – Whilst these are referred to in the document, the focus is weak and not recognised as a priority in its own right to assist rural areas.
- (iv) Development of a Regional Implementation Plan for the West Midlands (RIP) and shaping of strategic investment packages – DEFRA, AWM, NE and the Forestry Commission will be the lead partners in developing the RIP. AWM are looking for a strategic investment package approach, which has synergy with the Regional Economic Strategy. It is important, therefore, that WCC and sub-regional partners input into this process in order to ensure that the right framework is in place to assist rural development in Warwickshire and the rest of the sub-region over the next seven years.

4. New Assisted Areas Map

4.1 DTI is consulting on the criteria and geographical units that should be used in designating the UK's Assisted Areas map for 2007-2013. This will be followed by a second round of consultation in early summer 2006 on the detail of a draft map itself. The first part of the consultation ran until 19th April 2006.

4.2 Assisted Areas are those areas most in need of economic development where, according to EU state aid rules, aid may be granted to businesses (of any size) for the purposes of regional development. The 2000-2006 Assisted Areas map includes 11 wards in Warwickshire: four in North Warwickshire, four in Nuneaton and Bedworth and three in Rugby (1991 wards). In England, the main grant scheme is DTI's Selective Finance for Investment (formerly Regional Selective Assistance). SFI helps fund new investment projects that lead to long-term improvements in productivity and/ or create or safeguard jobs.

- 4.3 Regional aid rules have wider implications for how and where public sector funding can be granted to businesses and other organisations, as well as the amounts that can be awarded. For example, SMEs in Assisted Areas may qualify for higher levels of support (known as 'top ups') from grant programmes operating nationally or region-wide. The region's approach to the new Regional Competitiveness and Employment programme should also be expected to take the new Assisted Areas map into account. Outside Assisted Areas, other types of 'horizontal' aid can be available. These rules allow support for SMEs at lower levels as well as aid for R&D, risk capital, training, employment of certain groups and environmental protection.
- 4.4 Under new EU regional aid guidelines, UK population coverage will be reduced from 30.9% to 23.9%. This reflects EU objectives of reducing the amount of state aid and of EU enlargement that led to aid being concentrated in the new, poorer member states. It also reflects the UK's sustained economic success in recent years. Cornwall, West Wales and the Valleys, the Highlands and Islands and Northern Ireland qualify automatically. This leaves 16.4% of discretionary 87(3)c coverage for the UK Government to allocate to target areas elsewhere in the UK providing they meet broad criteria and fall into categories defined in the new guidelines, subject to overall approval from the European Commission.
- 4.5 DTI has indicated that it intends to apply a 'filter' in the EU guidelines. Filter regions are defined as those areas with either a GDP per capita below the EU average or unemployment higher than 115% of the national average. The filter operates at NUTS II (e.g. Warwickshire, Worcestershire and Herefordshire) or NUTS III (county or unitary) level. Warwickshire is the only part of the region to fall outside the filter and risks losing all coverage unless arguments for a special case can be made successfully.
- 4.6 In duly justified circumstances, national governments can propose areas outside the filter. The guidelines include provisions for zones which are 'undergoing major structural change, or are in serious relative decline, when compared with other comparable regions ... at Community level' and smaller zones which are 'relatively more in need of economic development than other areas in that region'. Support in such areas is at a lower cap and restricted to SMEs in the smaller areas.
- 4.7 The first stage of consultation seeks views on three issues:-
- (1) The extent to which Merseyside and South Yorkshire as the UK's 'Economic Development' regions should be covered.
 - (2) The statistics and indicators to be used and their varying importance and weight.
 - (3) The geographical units to be used.
- 4.8 Officers in the Regeneration Strategy & Europe Group are working with the Environment and Economy Directorate (EED) Research Team and regional and sub-regional partners to made the case for Warwickshire to keep Assisted Area

coverage in and around the Coventry and Nuneaton Regeneration Zone (including the Peugeot site at Ryton and Ansty). This is Warwickshire's best case statistically and strategically. Assisted Areas need a sound evidence base justifying their inclusion. Designation should also be in line with a 'clearly defined regional policy'. Regional partners are making the case for a policy-based approach based on the Regional Economic Strategy (RES).

- 4.9 The Strategic Director of Environment and Economy has submitted a response to DTI's first consultation as outlined above. Officers have also been working through the Cohesion Sub Group to influence the positions of regional bodies. Both the Regional Assembly and AWM recognise Warwickshire's case at this first stage of the consultation process. CSW Partnerships have also submitted a sub-regional response making the case for coverage based on the Regeneration Zone.

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19th April 2006