

AGENDA MANAGEMENT SHEET

Name of Committee	Cabinet
Date of Committee	23rd November 2006
Report Title	Government Responses to Consultations on the Review of UK Assisted Areas and the Draft UK National Strategic Reference Framework for the 2007-2013 EU Structural Funds Programme
Summary	Cabinet agreed a report on 4th May 2006 which set out Warwickshire County Council's approach to Government consultations on the new Assisted Areas map and European Union (EU) funding proposals for 2007-2013. Responses to two of the consultations have now been published. The new Assisted Areas map removes all of Warwickshire's coverage as expected, but includes some measures for areas not on the map. The National Strategic Reference Framework allocates €680 million (approximately £460 million) to the West Midlands as part of two new Structural Funds Programmes. This report summarises the Government responses and the main implications for Warwickshire.
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Would the recommended decision be contrary to the Budget and Policy Framework?	Yes/No
Background Papers	Government consultation documents, WCC and partner submissions and Government Responses available on request.

CONSULTATION ALREADY UNDERTAKEN:- *Details to be specified*

- Other Committees Report to Cabinet on 4th May 2006
- Local Member(s)
- (With brief comments, if appropriate)

Cabinet - 23rd November 2006

**Government Responses to Consultations on the Review of
UK Assisted Areas and the Draft UK National Strategic
Reference Framework for the 2007-2013 EU Structural
Funds Programme**

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

Recommendation

That Cabinet:-

1. Notes publication of the final Assisted Area Map and Warwickshire's loss of all coverage.
2. Welcomes a continuation by Advantage West Midlands (AWM) of the region-wide Selective Finance for Investment in England scheme for all Small and Medium Sized Enterprises (SMEs) outside the Assisted Area but also asks the Government to recommend to AWM that particular encouragement and priority is given to applications from SMEs based in those parts of Warwickshire and other areas which are losing Assisted Area status.
3. Notes progress on the new EU Structural Funds Programmes and supports the approach set out in paragraph 3.9.
4. Requests a further report on the final shape of the new EU Structural Funds Programmes and opportunities for Warwickshire.

1 Introduction

- 1.1 Cabinet agreed a report on 4th May 2006 which set out Warwickshire County Council's approach to Government consultations on the new Assisted Areas map and EU funding proposals for 2007-2013. Responses to two of the consultations have now been published.

2. Review of UK Assisted Areas

Background

- 2.1 Assisted Areas are those areas where regional aid may be granted under EU law. Investment aid to large companies, whether from EU or UK sources, is only possible in economically weaker regions designated as Assisted Areas whereas small and medium sized enterprises (SMEs) in Assisted Areas are eligible for higher levels of assistance. Other forms of state aid are allowed to companies in any region.
- 2.2 The current 2000-2006 Assisted Areas map includes eleven (1991) wards in Warwickshire. (See **Appendix A**).
- 2.3 The main grant scheme is Selective Finance for Investment in England (SFIE) which helps fund new capital investments projects that lead to improvements in productivity, skills and employment. The scheme is operated by Advantage West Midlands (AWM). Large companies in Warwickshire's Assisted Areas are currently eligible for grants of up to 10% of total expenditure and SMEs for up to 20%.
- 2.4 Other schemes affected include gap funding for land and property development with large private sector owner/developers normally only eligible for grants for investment in an Assisted Area.
- 2.5 New EU regional aid guidelines for 2007-2013 require UK coverage to be reduced from 30.9% to 23.9% of the population because of Britain's strong economic performance of recent years and because aid has been redistributed to the new poorer Member States.
- 2.6 The new guidelines also apply a statistical "filter" designed to disqualify better performing areas from coverage based on comparisons of GDP per capita and unemployment. Warwickshire is the only part of the West Midlands not to pass this filter. National governments are able to designate coverage outside the filter, but only by demonstrating "major structural change" using comparisons with the situation at EU level.

The Government Response

- 2.7 The Department of Trade and Industry (DTI) held a two-stage consultation between 15th February and 7th August 2006 as part of the Review. WCC worked with partners throughout the consultation period to try and keep Assisted Area status for the Ansty Major Investment Site, the Peugeot site at Ryton and targeted wards in the Coventry and Nuneaton Regeneration Zone (CNRZ).
- 2.8 Despite Warwickshire's strong case and similar cases elsewhere in the UK, the Government has taken the view that it would not be able to justify any coverage in areas that fall outside the filter given the UK's strong economy and robust labour market performance of recent years. It is also apparent that DTI has not wanted to risk delaying approval of the new map by proposing coverage for areas that could be considered controversial by the European Commission (EC).

(See **Appendix A** for more information on the consultation and how DTI has developed the new map).

Proposed WCC Response to Warwickshire's Loss of Coverage

- 2.9 At the 10th October 2006 meeting of the Economic Development Overview and Scrutiny Committee, Members recommended Cabinet press the Government to re-consider the proposed Assisted Area map retaining the Ryton ward in light of the closure announcement. (See separate report).
- 2.10 On publishing the final Assisted Areas map, the Government also announced what it described as a "new package of measures" which would allow Regional Development Agencies (RDAs) to give grants to SMEs in all areas squeezed off the map.
- 2.11 These measures are not new; rather a continuation of a modified SFIE scheme for SMEs which already exists. Until 2005, the scheme was only available in the West Midlands in designated Tier 3 areas – primarily Regeneration Zone (RZ) and Objective 2 wards outside the current Assisted Areas map. In 2005, however, AWM granted Tier 3 status to all parts of the region outside the Assisted Area. Other RDAs have continued to operate geographically targeted Tier 3 schemes.
- 2.12 AWM has indicated that it intends to continue to operate its modified SFIE scheme throughout the region. It is the view of WCC officers that this should be welcomed. It should help simplify business support. It also means that all SMEs will continue to be eligible for SFIE potentially giving Warwickshire more opportunities to take advantage of the scheme.
- 2.13 However, a region-wide scheme would not necessarily prioritise those areas losing Assisted Area status which seems to be the Government's intention from its announcement and Consultation Response. Therefore, it is recommended that Cabinet also asks the Government to recommend to AWM that particular encouragement and priority is given to applications from SMEs based in those parts of Warwickshire and other areas which are losing Assisted Area status.

Implications – Other Aid and Funding

- 2.14 Large companies located in, or locating to, Warwickshire will no longer be eligible for regional aid. However, it should be recognised that such aid is just one form of business support and take-up of SFIE as the main scheme has declined in Warwickshire in recent years. Regional aid is also just one part of the overall EU state aid regime. 'Horizontal' rules allow other forms of aid (SMEs, Research and Development, training, employment etc) to be granted in all regions.
- 2.15 Most grant schemes, therefore, remain unaffected by the loss of Assisted Area Status. For example, Warwickshire will still benefit from funding from AWM in support of the Regional Economic Strategy (RES) and from national programmes through the Learning and Skills Council (LSC). Warwickshire is also still eligible for the new EU Structural Funds Programmes.

3. UK National Strategic Reference Framework (Structural Funds)

- 3.1 The Government announced details of the final National Strategic Reference Framework (NSRF) on 23rd October 2006. (See **Appendix B** for background information on the UK's new Structural Funds Programmes and the DTI consultation). The West Midlands has been allocated €680 million. This is made up of €350 million from the European Regional Development Fund (ERDF – approximately £240 million) and €330 million from the European Social Fund (ESF – approximately £220 million). This compares to a combined total value of €1,430 million for the period 2000-2006.
- 3.2 The Government also confirmed the new management arrangements. The RDAs are being asked to take on the day-to-day strategic management and delivery of ERDF in support of the Government's desire to align ERDF with domestic spending. ESF will be delivered in the context of a national programme and administered primarily through co-financing by the LSC and Jobcentre Plus (JC+). The Regional Skills Partnerships are also being asked to lead on drawing up regional ESF strategies.

Draft Regional Proposals

- 3.3 The West Midlands Regional Assembly's European and International Affairs Partnership (EIAP) established a cross-sectoral Regional Steering Group in March 2006 to oversee the drafting of the new Operational Programme. The Steering Group is co-ordinated by Government Office for the West Midlands (GOWM) with AWM providing the strategic lead.
- 3.4 Four further working groups have been set up to draft the specific detail of the new Programme. The groups have been tasked with considering issues such as spending priorities; thematic and geographical priorities; and alignment with European, national and regional strategies. WCC and the sub-region are well represented on all four groups.
- 3.5 It is being proposed that the new ERDF Programme is organised around four priorities:-
- (i) Promoting Innovation and Knowledge for Growth.
 - (ii) Stimulating Enterprise Development.
 - (iii) Achieving Sustainable Urban Development.
 - (iv) Developing Transnational Activity.
- 3.6 The NSRF confirmed that all parts of the region are eligible for funding and there will be no 'maps' at EU or national level – in contrast to the current Objective 2 programme. Instead, it is for regional programmes to identify geographical and thematic priorities in line with the RES. At least 75% of the total programme budget must be earmarked for activities designed to deliver defined EU Lisbon targets on jobs and growth. It is being proposed that the ERDF funding is targeted as follows:-

- (i) Promoting Innovation and Knowledge for Growth – Five “innovation” clusters (including health and medical technologies, energy and digital media); environmental technologies; the High Technology Corridors (including the Coventry, Solihull and Warwickshire Corridor); and established research centres.
 - (ii) Stimulating Enterprise Development – The ten clusters in the RES and the engagement of SMEs and groups facing barriers.
 - (iii) Achieving Sustainable Urban Development – Primarily focused on the two major urban areas: the main West Midlands conurbation and the North Staffordshire conurbation.
 - (iv) Developing Transnational Activity – The smallest priority. Funding for co-operation with other European regions.
- 3.7 ESF is expected to focus on extending employment opportunities to all and developing a skilled and adaptable workforce.

Next Steps and Issues for Warwickshire

- 3.8 The four working groups set up to draft the specific detail of the new ERDF Programme are continuing to meet to develop the four priority chapters, and GOWM and AWM are now working to transfer the management responsibility. A formal consultation on the new Programme will be held in the region between late November 2006 and February 2007. In addition, a consultation on the draft ESF Operational Programme for England was launched at the end of October.
- 3.9 A number of issues are particularly relevant to Warwickshire. Cabinet is asked to support the approach being taken by WCC officers in the working groups and to be taken by WCC during the forthcoming consultations. Four issues are of particular importance:-
- (i) Sustainable Urban Development – This priority seemed initially to be defined by the geographical boundaries of the Metropolitan local authorities. However, WCC working with sub-regional partners has so far been making good progress at promoting the idea of a joint sub-regional package based more on economic geography and aimed at targeted communities in both parts of the CNRZ. This priority is expected to fund 5-6 packages across the region, each worth £10-15 million ERDF (capital and revenue) and designed to complement AWM RZ and other funding.
 - (ii) Management and delivery arrangements – The EU and Government guidelines encourage delegated responsibility for parts of the new Programme. Whilst the focus on the major urban areas (and the City Region) is to be expected, WCC has been promoting the use of proven partnerships and structures at regional, sub-regional and local level. In particular, a role in managing and delivering a Sustainable Urban Development Package is being explored for either Coventry, Solihull and Warwickshire Partnerships (CSWP) or the two local authorities.

- (iii) ESF – The Government has made clear that it sees most ESF administered via co-financing through the LSC and JC+. Whilst the simplification and other benefits of co-financing are to be welcomed, this should not limit the ability of local authorities to tackle more local issues. Other organisations, including local authorities, should also be able to act as co-financing organisations where appropriate and if needed. This could be particularly relevant to Warwickshire if the City Region local authorities opt to have a joint ESF co-financing plan in support of the City Strategy.
- (iv) Global Grants – The ESF Global Grants programme managed in the sub-region by the Heart of England Community Foundation (and supported and guaranteed by WCC) has played a significant role in enabling small voluntary sector and community organisations to access ESF in support of their work with groups most disadvantaged in the labour market. The Government has stated that it wishes to build on the experience of Global Grants, but it is so far unclear how this would work. WCC officers would wish to see Global Grants continue during the new ESF programme.

3.10 The West Midlands is expected to submit its ERDF Operational Programme to the Government in mid March 2007 and then the EC in late March 2007. This, subject to appraisal by the EC, would allow the new Programme to be launched in autumn 2007. The new ESF programme should be expected to start at around the same time.

JOHN DEEGAN
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9th November 2006

Cabinet - 23rd November 2006

**Government Responses to Consultations on the Review of
UK Assisted Areas and the Draft UK National Strategic
Reference Framework for the 2007-2013 EU Structural
Funds Programme**

Review of UK Assisted Areas

1. Current 2000-2006 Assisted Areas Map

- 1.1 The current 2000-2006 Assisted Areas map includes eleven (1991) wards in Warwickshire: Coleshill North, Curdworth, Nether Whitacre and Water Orton in North Warwickshire; Attleborough, Bulkington, Exhall and Poplar in Nuneaton and Bedworth; and Earl Craven, Fosse and Ryton-on-Dunsmore in Rugby.

2. New European Guidelines

- 2.1 New EU regional aid guidelines apply from 2007 to 2013 and replace current guidelines which expire on 31st December 2006. They define where regional aid may be granted under EU law.
- 2.2 The new guidelines aim for less and better targeted state aid, in line with the conclusions of successive European Council meetings and agreed by all EU Member States. In particular, the new rules require UK coverage to be reduced from 30.9% to 23.9% of the population because of Britain's strong economic performance of recent years and because aid has been redistributed to the new poorer Member States.
- 2.3 Three disadvantaged areas qualify automatically: Cornwall, West Wales and the Valleys, and the Highlands and Islands. In addition, the Government has decided to continue Northern Ireland's 100% coverage due to its particular circumstances. This leaves 16.4% of discretionary coverage for DTI to allocate as long as the target areas meet certain criteria and categories in the new EU guidelines

3. DTI Consultation and Approach

- 3.1 DTI held a two-stage consultation between 15th February and 7th August 2006. The first stage primarily sought views on the indicators and geographical units that should be used in designating Assisted Area status. The second stage was on the draft map and its rationale.
- 3.2 The Strategic Director for Environment and Economy submitted responses to both stages of the consultation, and WCC worked with Coventry City Council on two joint responses through CSWP. These showed how problems in Nuneaton and Bedworth are masked by the filter operating no lower than County level and

demonstrated the major structural change in the sub-regional economy. They also stressed the importance of the Ansty and Peugeot sites.

- 3.3 AWM and the West Midlands Regional Assembly supported coverage for carefully selected parts of northern Warwickshire at the first stage consultation, and AWM argued for Ansty and Peugeot to be reinstated at the second stage. The case for the Ansty and Peugeot sites was also taken up with DTI by the sub-region's Members of Parliament (MPs). Similarly, the case for Warwickshire wards in the CNRZ was taken up by the relevant Warwickshire MPs.
- 3.4 DTI decided to take the current Assisted Areas map as the starting point for developing the new map. First, the filter was used to disqualify the better performing areas. Warwickshire; Halton, Ellesmere Port and Neston; South Manchester; Lowestoft; Brighton and Hove; and the City of Edinburgh and West Lothian were excluded in this way.
- 3.5 Second, three indicators of need were used to prioritise areas for inclusion: employment rate, adult skills at Level 2 and above and incapacity benefit claimants. A fourth measure of opportunity was used as a further means of targeting: manufacturing share of employment. Wards were then aggregated to form larger contiguous zones of a minimum 100,000 population.

4. New Regional Aid Intensities

- 4.1 The maximum aid intensities allowed are linked to an area's GDP and the size of the enterprise being assisted. These are shown below. Non-eligible areas have a GDP per capita above the EU average or unemployment lower than 115% of the national average. All Warwickshire wards will be defined as non-eligible (non-Assisted) from 1st January 2007. Large companies are no longer eligible for regional aid. However, medium sized and small enterprises are still eligible for grants of up to 10% and 20% of the total project expenditure respectively.

	Large Enterprises	Medium-Sized Enterprises	Small Enterprises
Article 87(3)(a) region GDP<45% EU25 average	50%	60%	70%
Article 87(3)(a) region GDP<60%EU25 average	40%	50%	60%
Article 87(3)(a) region GDP<75% EU25 average and "statistical effect" region*	30%	40%	50%
Article 87(3)(c) "statistical effect" region*	20%	30%	40%
Other Article 87(3)(c) region – higher cap**	15%	25%	35%
Other Article 87(3)(c) region – lower cap**	10%	20%	30%
Non-eligible areas	0%	10%	20%

Source: Stage 1 – Identifying Criteria, DTI Consultation Paper

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**UK National Strategic Reference Framework
(Structural Funds)**

1. Background

- 1.1 After agreement on the new Financial Perspective (EU budget) for 2007-2013, the total Structural Fund allocation for the UK will be €9.4 billion. This is broken down into three Objectives:-
- (i) €2.6 billion is already allocated to Cornwall, West Wales and the Valleys, and the Highlands and Islands as the UK's convergence regions.
 - (ii) €6.2 billion for other UK regions through a new Regional Competitiveness and Employment Objective designed to replace the current Objectives 2 and 3. It will support ERDF (investment in job creation, business support, environmental improvements and community regeneration) and ESF (training and employment) activities. It is the responsibility of the UK Government to allocate this funding in agreement with the EC. South Yorkshire and Merseyside have a special transitional status.
 - (iii) €0.6 billion for a European Territorial Co-Operation Objective designed to promote co-operation between European regions.
- 1.2 The NSRF is a requirement of the new EU Regulations. It establishes broad priorities for the new Structural Funds Programmes and allocates funding to UK regions. DTI held a consultation on the UK's draft NSRF between February and May 2006. The consultation invited comments on how to distribute the UK's allocation under the Regional Competitiveness and Employment Objective and on the Government's proposals for managing ERDF regionally and ESF nationally.

2. DTI Consultation

- 2.1 The EIAP submitted a response to the NSRF consultation with input from partners (including WCC and CSWP). This primarily argued that both ERDF and ESF funding should be managed 'by the region for the region'; that there should be maximum flexibility at regional level, including responsibility for

ensuring alignment with related funding streams and that GOWM or another 'arms length' organisation should continue to manage the programme.

- 2.2 The Strategic Director for Environment and Economy submitted a response on behalf of WCC. This supported the regional position, but stressed also the role of sub-regional and local partnerships and the need for flexibility at sub-regional and local level. It also stressed the importance of community regeneration and highlighted Warwickshire's needs and contribution to the regional economy.