

SCOTTISH EUROPEAN STRUCTURAL FUNDS FORUM



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**ROOM G05/06, MERIDIAN COURT, GLASGOW
MONDAY 24 MAY 2004 AT 2:30 PM**

AGENDA

Coffee available from 2:00pm

- 1. Welcome**
- 2. Minutes of 3 November meeting and matters arising**
- 3. Financial performance and implementation of the 2000-2006 Scottish Structural Funds Programmes**
- 4. Future of the Funds – Report from the Analytical Working Group and feedback from the Cohesion Forum**
- 5. Date of Next Meeting**

Scottish Executive
May 2004

Meeting Date: 24 May 2004

Paper Number:

1

Agenda Item Number:

3

For Discussion

Agenda Item:

Programme implementation

SCOTTISH EUROPEAN STRUCTURAL FUNDS FORUM

PROGRAMME IMPLEMENTATION

Purpose

To inform Forum members of recent developments with respect to programme implementation, notably progress on N+2 targets and the outcomes of the Performance Reserve and the Mid Term Review.

1. Financial Performance of the 2000-2006 Scottish European Structural Funds Programmes

The N+2 rule

The de-commitment rule (N+2), set out in Article 31 of Council Regulation (EC) No. 1260/1999, is well known to the Forum.

N+2 in 2003

Both N+2 for 2003 and the performance reserve was achieved for all Funds/Programmes in Scotland. For N+2, the final payment request was submitted to the Commission on 23 December following receipt and approval of some £100m in grant claims in the final 2 months of the year. The Scottish Executive and Programme Management Executives are working with partners to ensure that lessons learnt from this experience are taken on board in the exercise in 2004 and future years.

As for the final position elsewhere in the UK, payment claims were sent to the Commission for all the Structural Funds programmes that will meet or surpass the 2003 N+2 targets. The only exception is the FIG programme outside of Objective 1 where the exact shortfall is currently subject to the outcome of negotiations with the Commission.

N+2 in 2004 - Commitments

The following table shows a reasonably encouraging position in terms of level of commitment against the N+2 spending targets. Measures are in hand by the Programme Management Executives to encourage partners to maintain spending, particularly in the ERDF transition and ESF elements of the West of Scotland Objective 2 Programme and the URBAN community initiative.

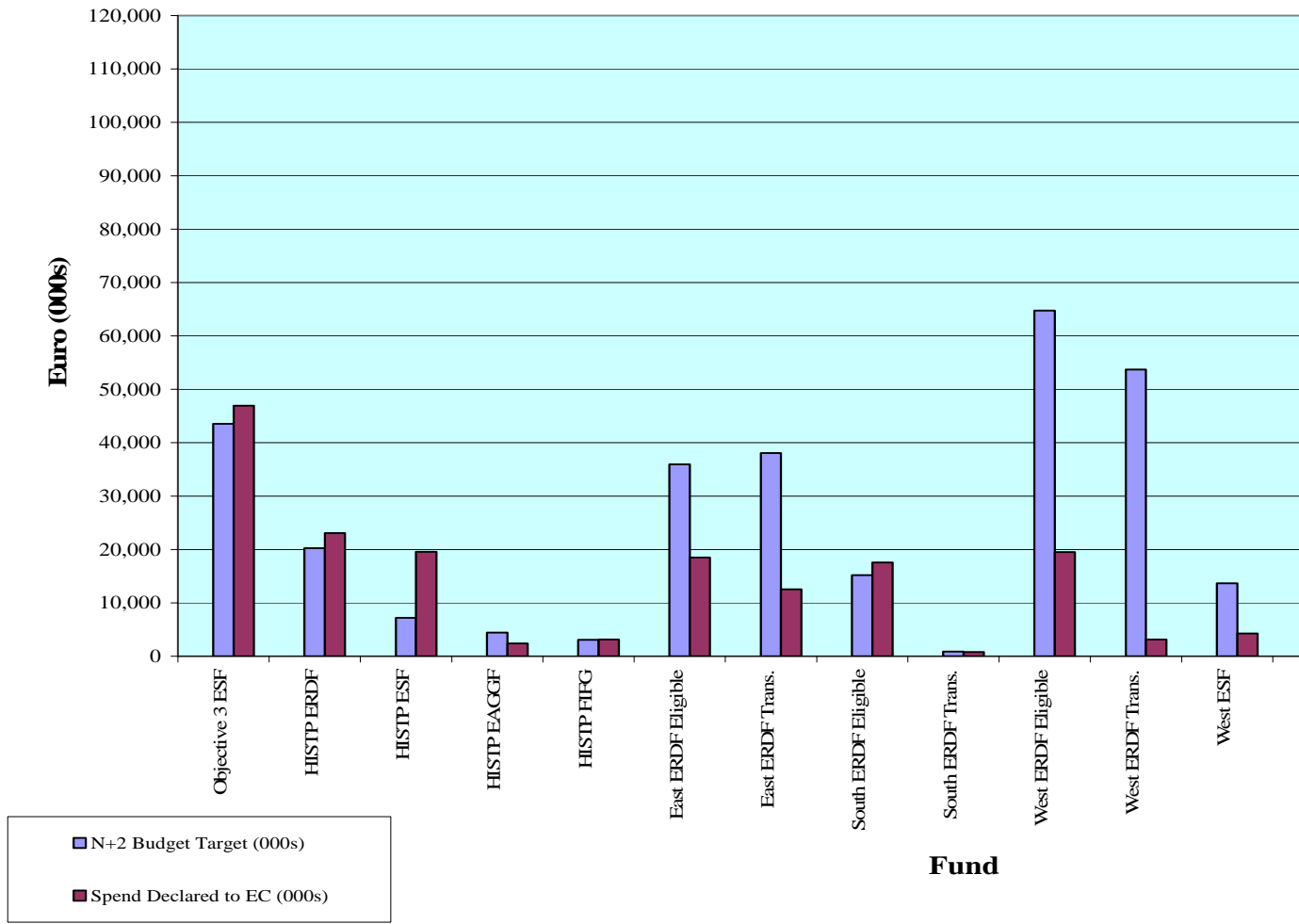
Programme	N+2 Budget Target (€ For 2004)	Structural Funds Commitment to date (€ at rate £1: €1.48965 May 2004)	Commitment as % of N+2
East ERDF (eligible)	60,592,800	111,729,775	184%
East ERDF (transitional)	54,495,440	74,763,757	137%
East Total	115,088,240	186,493,532	162%
South ERDF (eligible)	25,614,600	43,879,064	171%
South ERDF (transitional)	1,267,300	1,532,320	121%
South Total	26,881,900	45,411,384	169%
West ERDF (eligible)	109,111,000	190,893,618	175%
West ERDF (transitional)	76,904,000	56,480,934	73%
West ERDF Total	186,015,000	247,374,552	133%
West ESF	23,051,000	23,929,072	104%
Objective 3 ESF	188,423,200	337,735,878	179%
HISTP ERDF	84,821,650	126,146,287	149%
HISTP ESF	26,409,200	37,390,139	142%
HISTP EAGGF	16,277,459	24,991,261	154%
HISTP FIG	12,769,590	18,598,481	146%
Urban II	3,212,503	7,445,799	232%
Leader+	6,442,270	27,046,513	419%
Equal	Covered at UK level	12,962,589	

It should be noted that the N+2 spending target does not take account of the addition of the performance reserve, which is discussed later in this paper. The Executive is negotiating with the Commission on how to profile the commitment, and Commission Decisions on this and requested programme modifications are expected by end June. On programme modifications, the process has taken longer than expected. Programme Monitoring Committees approved modification proposals by December 2003, but there have been delays resulting from internal Commission disagreements over proposed retroactive virements between Priorities for the 2000-03 period. The Executive has been applying pressure to the Commission to resolve the matter in early course.

N+2 in 2004 – Spend

The following table shows the current position. Although progress varies quite significantly between Programmes, the position looks considerably better than it did at this time last year. The prognosis is encouraging for all Funds/Programmes but there are still a number of issues that could determine whether or not we meet the 2004 targets – these are highlighted at the bullet points headed ‘Possible Obstacles to Achieving Spend Levels’.

Progress Towards N+2 Targets



Programme	€N+2 Budget Target 2004	€Spend to report to EC	Spend as % of N+2	€Value of claims needed to meet N+2	£ value of claims needed at May 2004 exchange rate
East ERDF	115,088,240	74,192,449	64%	40,895,791	27,453,344
South ERDF	26,881,900	20,796,634	77%	6,085,266	4,085,039
West ERDF	186,015,000	120,039,895	65%	65,975,105	44,289,088
West ESF	23,051,000	13,812,243	60%	9,238,757	6,201,977
Objective 3 ESF	188,423,200	122,579,114	65%	65,844,086	44,201,134
HISTP ERDF	84,821,650	54,039,495	64%	30,782,155	20,664,060
HISTP ESF	26,409,200	28,668,209	109%	N+2 Achieved	N+2 Achieved
HISTP EAGGF	16,277,459	10,730,093	66%	5,547,366	3,723,946
HISTP FIG	12,769,590	8,187,031	64%	4,582,559	3,076,271
Urban II	3,212,503	1,336,809	42%	1,875,694	1,259,153
Leader+	6,442,270	23,948	0.4%	6,418,322	4,308,620
Equal	Dealt with at UK level				

N+2 in 2004 – Current initiatives designed to help achieve target spend

- Updated action plans for all Programmes approved or in the process of being approved by PMCs .
- N+2 monitoring timetable (Annex C).
- Increased monitoring of claim performance and follow up given higher priority.
- Increasing use of a simplified electronic application and claim process.
- Virement recommendations arising from consideration of Mid Term Evaluations.
- Continue proactive discussions with partners and Scottish Executive policy Divisions to consider future project possibilities.

Possible Obstacles to Achieving Spend Levels

- Claims not being realised in line with expenditure profiles. Experience has shown that application expenditure profiles are unreliable and generally optimistic but all PME's are working with partners to encourage regular updating of profiles.
- The Executive and PME's are continually driving home the message on N+2. However, the onus is on partners to bring forward good quality applications, progress projects to timescales promised and submit claims.
- European Commission delay approving the re-profile of Programme financial tables and subsequent delay approving additional projects. The issue of retrospective annual re-profiling continues to delay this exercise.

- Exchange rate fluctuation. The current exchange rate shows sterling to be relatively strong. Should sterling increase further in strength claims accepted in that month will be worth less toward the N+2 target. It is unlikely that sterling will fluctuate during 2004 as much as in the 2003 N+2 period when the sterling value of the N+2 targets increased by as much as 17% in the most extreme case i.e. West of Scotland Objective 2 Programme.

2. Progress of the Mid-Term Review of the 2000-2006 Scottish European Structural Funds Programmes

The Mid Term Evaluations were completed and issued to the Commission by the end of 2003. The individual programmes have been reflecting on the conclusions of the different evaluations and determining what changes should be made as part of their Mid Term Reviews. Recommendations have been made to, and agreed by, the individual Programme Monitoring Committees and actions are already underway.

Several recommendations relate to the delivery of the individual programmes – many of these have been addressed by the introduction of the new online application and claims systems in 2002-03 and the Business Process Review, which is now nearing completion. Other recommendations relate to financial adjustments in each of the programmes to enable all programme resources to be committed before the end of 2006. These are described here in detail.

The main financial issues in the Mid Term Review are:

- the performance reserve; and
- programme modifications recommended by the Mid Term Evaluations.

Performance reserve

The Commission set aside 4% of the value of each programme as a “performance reserve”, subject to the performance of programmes against a series of indicators for the period up to the end of 2003. All the Scottish programmes have been awarded their performance reserve allocations, officially confirmed by the Commission in March. This amounts to €70m (approximately £47m at the current exchange rate) of additional resources for the Scottish programmes.

The following table describes how the additional performance reserve resources have been allocated within the programmes. These allocations were agreed by the respective Programme Monitoring Committees and the Commission.

Programme/priority	Performance Reserve allocation	
	€(mn)	£(mn)
HISTP	13.380	8.990
Priority 1: ERDF	8.543	5.740
Priority 3: ESF	2.607	1.752
Priority 4: ERDF/ESF/EAGGF	2.229	1.498
West of Scotland O2	21.176	14.228
Priority 1: ESF	1.159	0.779
Priority 2: ERDF	18.368	12.341
Priority 3: ESF	1.649	1.108
East of Scotland O2	11.007	7.395
Priority 2: ERDF	11.007	7.395
South of Scotland O2	3.183	2.139
Priority 2: ERDF	3.183	2.139
Objective 3	21.660	14.553
Priority 2: ESF	21.660	14.553

Programme modifications

As well as the addition of new resources, the Mid Term Review offered programmes the opportunity to shift resources between Priorities. Such adjustments were recommended by evaluators to reflect changes in the wider demand and need that have taken place since the programme strategies were originally drafted in 1999. They will also ensure that the programmes can fully commit all their resources by the end of 2006.

A series of virement proposals have been agreed by each of the Programme Monitoring Committees. While PMCs have the authority to make virements within Priorities, Commission approval is required for any adjustments between Priorities. Decisions on the virements will be made by the Commission by the end of June, as noted above, though the Commission has provided feedback on the proposals as they have been developed. As a result, the proposals have had to be modified to reflect Commission priorities – for example, the Commission limited the amount of funding that could be re-allocated to Priority 2 within the Objective 3 Programme.

The Highlands & Islands programme and the South of Scotland have only proposed modest changes. More significant virements are being put forward in the other three programmes. In the West of Scotland O2 programme, £28m is being shifted into Priority 2 (Competitive Locations) in anticipation of substantial demand in the closing years of the programme. Similarly, in the East of Scotland programme, £10m is to be moved into its Priority 2 (Strategic Locations and Sectors). Lastly, in the Objective 3 programme, £14m is being re-allocated to Priority 2 (Social Exclusion) because of the unexpectedly high demand on this Priority.

SCOTTISH EUROPEAN STRUCTURAL FUNDS FORUM ANALYTICAL WORKING GROUP REPORT ON THE EUROPEAN COMMISSION'S PROPOSALS FOR STRUCTURAL FUNDS REFORM: IMPLICATIONS FOR SCOTLAND

Introduction

1. The Scottish European Structural Funds Forum set up a short-life Analytical Working Group to examine the European Commission's 3rd Cohesion Report (3CR). The Group has been mainly concerned with what the financial implications for Scotland of the 3rd Cohesion report would be, rather than the overall strategic framework of what the Commission has proposed.

2. This paper represents the Analytical Working Group's initial views and will feed into policy discussions relating to the Commission's approach, for example regarding the proposed strands and themes. Further information on the Commission's proposals are expected in draft regulations in the summer and may materially change aspects of this paper. In addition, the Commission's proposals will form the start of a long process of negotiation among Member States, who must agree the regulations unanimously. The UK Government has put forward its proposals for an EU Framework for Devolved Regional Policy and other Member States also propose models which differ from that outlined by the Commission in its 3rd Cohesion Report. Therefore it is not yet certain what outcome will finally be agreed, but it may well differ considerably from the Commission's current proposals.

3. In preparing this paper, contributions have been received from a wide range of the Group's participants, and various dimensions of the 3rd Cohesion Report have been considered. Organisations represented on the Group included the European Policies Research Centre (Strathclyde University), Scottish Natural Heritage, Scottish Environment Protection Agency, Highlands and Islands Enterprise, Scottish Enterprise, and Scottish Borders Council (representing local government).

Report's account of recent Cohesion trends

4. The Cohesion Report sets out the recent trends in the European economy. It has been a tough time – at the aggregate level, economic growth has slowed, unemployment has risen, and productivity growth has been relatively low.

5. Over the longer period, while cohesion has generally improved, wide differences in economic performance continue to exist between countries and regions and it is firmly expected that they will grow larger with enlargement. The Report notes that:

- GDP, employment and productivity have grown more in Objective 1 regions (particularly the poorest ones) than in the rest of the EU.

- Disparities in innovative capacity persist (as measured by expenditure on, and employment in, R&D, and by level of applications for patents).

6. More generally, regions with problems are not solely confined to the current cohesion countries or to the accession countries. Some regions outside such areas have structural problems which deter investment, despite having a reasonable infrastructure and workforce quality.

Rationale and focus of Commission's proposed regime

7. On the basis of the trends, the Cohesion Report sees a continued rationale for regional intervention in terms of helping to reduce the structural disparities which directly affect regional economic competitiveness and the employability of people. More broadly, it also links regional intervention with the Lisbon and Gothenburg Agendas. Boosting regional competitiveness can, according to the Report, enhance the growth potential not only of regions, but of the EU as a whole.

8. A further aspect of the Report is the importance accorded to territorial cohesion. The reform proposals for Structural Funds extend the remit of EU cohesion policy beyond spatial imbalances to addressing the balanced development of the EU territory. In essence, whereas in the past EU intervention has been geographically focused, the proposals in the 3CR would result in an EU cohesion policy that more explicitly focuses on the goal of balanced territorial development throughout the EU.

Details of the proposed regime

9. The details on the proposed Structural Funds regime are not complete in many respects and it is expected that draft regulations due in the summer will provide greater information. We do, however, have enough information to get a broad feel for how Structural Funds would look post 2006 were the Commission's proposals to be accepted.

10. The Report should be seen within the context of the wider financial framework put forward by the Commission for the 2007-2013 period. This retains a budgetary envelope of 1.24 per cent of EU Gross National Income (GNI). Within this, the funds available for Structural and Cohesion Funds would be €336 billion. Annual spending on EU Cohesion Policy would rise by 31 percent, from €9bn in the final year of the current period (2006) to €11bn in 2013.

11. The current Objectives 1, 2 and 3 would be replaced by three new priorities:

- A Convergence strand, to support growth and job creation in the least developed Member States and regions;
- A Regional Competitiveness and Employment strand, to help regions (outside the least developed Member States and regions) adapt to economic and other changes; and
- A Territorial Cooperation strand, to promote joint working to tackle common challenges across Member States.

12. The financial instruments and related funding levels are shown in Table 1.

Table 1: Basic structure and funding of Commission proposals

Priority	Financial instruments	Budget	
		(%)	(€bn)
Convergence	ERDF, ESF, Cohesion Fund	78	262
Regional competitiveness & employment		18	60.5
<ul style="list-style-type: none"> • Regional competitiveness programmes • National employment programmes 	ERDF ESF		
Territorial cooperation	ERDF	4	13.5

13. As the Table shows, ERDF, ESF and the Cohesion Fund would be the sole instruments. The agriculture and fisheries Funds (EAGGF Guidance Section and FIGF) would no longer exist. Instead, a single rural fund would be set up under Pillar II of the Common Agricultural Policy (which focuses on rural development) and a single fisheries instrument would also be established. The Community Initiatives (INTERREG, URBAN, EQUAL, LEADER+) would be discontinued as separate initiatives and integrated within the mainstream programmes.

The Convergence strand

14. About 78 per cent of total Structural and Cohesion Funds would be devoted to the Convergence Objective. This compares to the 73 per cent currently devoted to Objective 1 and Cohesion funding in the current programme.

15. The Convergence Objective would be addressed through:

- A Cohesion Fund, allocated to Member States whose GDP per head is below 90 per cent of the EU-25 average. According to the Report, it should “represent a third of the financial allocation for the new Member States concerned”. Moreover, it is recommended that transport and environmental infrastructure should remain the main priorities of the Cohesion Fund;
- Convergence funding, available to all NUTS (Nomenclature of Territorial Statistical Units) II regions whose GDP per head is below 75 per cent of the EU-25 average;
- Convergence funding to “statistically affected” regions - that is, to regions which have GDP per head below 75 per cent of the EU-15 average (but above 75 per cent of the EU-25 average). This funding would be “in the interest of equity, and to allow the regions concerned to complete the process of convergence”. The Report makes it clear that this funding would be temporary, lasting until 2013, and would not be followed by a further phasing out period.
- A specific programme under the Convergence Objective for the outermost regions.

The Competitiveness strand

16. About 18 per cent of total funds would be devoted to the Regional Competitiveness and Employment strand. This roughly corresponds to Objectives 2 and 3 of the current regime, which currently accounts for 22 per cent of total funds. It would consist of:

- Transitional phasing-in funding for regions that currently receive Objective 1 funding but which, due to economic growth, would no longer have GDP per head below 75 per cent of the EU-15 average;
- Competitiveness and employment funding to regions which are not eligible for Convergence or Transitional funding.

17. According to the Report, the resources for the Regional Competitiveness and Employment Objective would be allocated by the EU to Member States on the basis of “economic, social and territorial criteria”. It does not specify what the specific criteria or indicators would be. It would then be for Member States to distribute them to their regions.

The Territorial Cooperation strand

18. About 4 per cent of total funds would be devoted to the Territorial Cooperation strand. In the current programme, the Community Initiatives account for 5 per cent of total funds. However, the 4 per cent of total funds going to the Territorial Cooperation strand certainly implies growth compared to the current INTERREG III Community Initiative which it most closely resembles. All NUTS III areas along external and internal borders (land or sea) would in theory be eligible for cross-border Territorial Cooperation funding, while all NUTS III regions could be eligible for funding for transnational cooperation (depending on evaluations of the performance of current transnational Interreg IIIB Programmes). The size of their populations and their socio-economic conditions could guide the distribution of funds.

19. Annex A provides a summary graph of the key elements of Convergence, Competitiveness and Territorial Cooperation strands.

Other aspects of the Proposed Regime

20. Finally, in terms of other aspects of the proposed regime:

- The *Absorption Limit* would remain at 4 per cent, including the rural development and fishery instruments;
- There would again be a *Performance Reserve* to reward Member States and regions which show the most significant progress towards agreed objectives.

Who would the new regime favour ?

21. As already noted, the detail of the Commission's proposals in terms of funding allocation have yet to be specified. Hence, it is not possible to be precise on the question of the proposed allocation of funding. However, in broad terms the Commission proposals favour a broad 50/50 division between existing and new Member States and we might expect the following:

- In terms of *Convergence funding*, significant funding would be directed to most of the new Member States and to parts of Greece, Portugal, Spain, Italy and eastern Germany. Support under the Cohesion Fund would also include the new Member States, as well as Portugal and Greece. The recipients of statistical effect funding would ultimately depend on the statistics at the time when decisions are made, but on the basis of current data would mainly include regions in Germany, the UK and Spain. Convergence funding would also include special Programmes for the EU's 'outermost' regions (although most of the outermost regions would be expected to qualify for Objective 1 funding anyway).
- *Regional Competitiveness and Employment funding* would be more widely distributed. We know that "phase-in" regions would benefit and the philosophy behind the objective suggests that there would be funding for others via the proposed regional ERDF (European Regional Development Fund) and national ESF (European Social Fund) programmes.

The expectation is that 'financial envelopes' would be allocated to Member States on basis of the economic, social and territorial criteria referred to earlier, and Member States would then have the responsibility for allocating resources within their territories to address the Competitiveness themes.

What the proposed new regime would mean for Scotland

General considerations

22. The proposed Structural Funds regime would be consistent with the general thrust of the Scottish Executive's *Framework for Economic Development in Scotland* and *Smart, Successful Scotland* strategy. The Commission is proposing that the future EU Cohesion Policy should focus on a limited number of priorities that reflect the Lisbon and Gothenburg agendas. The future regional programmes would be targeted on a limited number of themes:

- Innovation and the knowledge economy;
- Accessibility and services of a general interest; and
- Environment and risk prevention.

23. These would be complemented by employment programmes that take account of the European Employment Strategy, with a focus on the themes of:

- Employment, training and adaptability; and
- Social inclusion.

Issues that were identified by the Group

24. The Analytical Group identified, and received contributions, on a number of important areas. Many of these represent concerns about the extent and coverage of funding that could be available in the future relative to the status quo. Others relate to statistical matters which may become important through time.

- **Aggregate statistical indicators:** As noted earlier, the 3CR's reform proposals would entail an allocation of funds from the EU to Member States and from Member States to regions. In neither case do we know the detail on how these allocations would be determined. As general background, the Group examined statistical indicators from the Eurostat's Cronos database to ascertain how the UK and Scotland compare to other parts of the EU (see Annex B). On the basis of the current data, and based on analysis at a very high level of geographical aggregation, the UK might receive greater Structural Funds receipts from an allocation based on indicators such as investment as a percentage of GDP or labour productivity, but not indicators such as unemployment. Within a UK context, Scotland might receive higher levels of structural funding if allocations were based on indicators such as population density, peripherality and business starts, but not on GDP per head or health personnel per 1,000 inhabitants.
- **Qualification for statistical effect funding:** The Group discussed the fact that qualification for statistical effect funding would ultimately be taken on the basis of GDP data that is not presently available. Hence, while Highlands and Islands would qualify on the basis of the current GDP information that is available, qualification cannot be guaranteed. In particular, the Group noted that across the EU 15 there are a cluster of regions that lie quite close to each other on either side of the 75 per cent qualification rule, and that the distribution of these regions can change quite significantly between years.
- **Temporary nature of statistical effect funding:** Statistical effect funding would be temporary. As noted earlier, it would end in 2013 and not be followed by a further period of funding. It was argued that the continuation or otherwise of such funding after 2013 might more appropriately be determined by examining the statistical indicators of need nearer the time.
- **Qualification for funding for geographical and natural handicap:** The special provision for allowing a higher rate of EU co-financing in Regional Competitiveness and Employment areas with geographical handicaps could benefit some Scottish regions. It is not clear how eligibility would be determined, but population sparsity could be an indicator. If so, qualification would depend on how low the population sparsity threshold were set.
- **Urban/industrial problems.** The Group noted the commitment made by the Commission to the problems of urban and industrial areas facing economic restructuring, issues which remain highly relevant for Scotland. In particular, the Commission proposes to reinforce the place of urban issues within mainstream programmes, building on the URBAN II initiative and involving city authorities more in the design and management of programmes. The weighting accorded to urban/industrial criteria for financial allocation at EU and UK levels would be

important, as would the methodology to be used at Member State level for proposing a “list of urban areas which would benefit from a specific action within the programmes”.

- **Rural development:** The Group considered that the proposed changes to rural development planning (concentrating on supporting the agricultural and farm diversification sectors) could be less flexible than current programmes. Furthermore, the proposed Regional Competitiveness and Employment themes do not seem to offer rural partners the same scope as is currently available to promote rural development. While it is not clear at this stage what will be in the new rural development regulation, it is likely that the scope for, for example, LEADER+ activities under this could be limited. Similar uncertainties about activities in support of fishing communities also exist with regard to the proposed single instrument for actions in the fishing industry.
- **Funding for territorial cooperation:** The Group noted the large allocation of funding for Territorial Cooperation relative to the current INTERREG Programme, which, depending on the allocation process, could provide opportunities to add value to other regional policy actions in Scotland.
- **Funding for Highlands and Islands:** If the Highlands and Islands were not to receive statistical effect funding under the Convergence strand, this would significantly reduce the funding levels available to Scotland. Taken together with potential difficulties with regard to their possible failure to qualify for either 87.3.a or 87.3.c state aid status, this would reduce the scope for interventions in physical and electronic infrastructure and support for inward investors and other domestic businesses.
- **Eligibility for statistical effect funding:** If the Commission were to look beyond NUTS II regions, there might be a case for other regions to qualify for statistical effect funding. For example, the South of Scotland could also qualify for statistical effect funding on the basis of the most recent GDP data. Scottish Borders Council has calculated that, were it to be a statistical effect area, funding might be around €140 million over the period. Whether this would be a possibility would depend on how the NUTS levels eligible for statistical effect funding were ultimately defined. It is likely that only NUTS II regions would be eligible for statistical effect funding, while the South of Scotland area is split between two NUTS II regions (South Western Scotland and Eastern Scotland). However, the South of Scotland is currently recognised as a programme area by the Commission for the current Objective 2 programme.

Aggregate financial aspects

25. Calculating robust financial implications of the proposed regime for Scotland is not possible as there is insufficient information on the content of the proposed new programmes (Annex C highlights what is known and unknown from the 3CR). In addition, as noted in paragraph 2, there are likely to be significant changes to the proposals outlined in the 3CR before eventual agreement is reached among Member States in late 2005/early 2006.

26. In broad terms, there are three missing links:
- First, for Competitiveness funding, the Commission has not yet specified adequate details on how the ‘financial envelopes’ would be derived for Member States;
 - Second, it is not known how the UK would decide to allocate its envelope for Competitiveness, nor whether Member States would have total autonomy, or if the Commission might ultimately seek to influence the process in some way.
 - Third, for Territorial Cooperation funding, it would be for Member States and regions to propose cross-border and transnational cooperation areas and for the Commission then to agree these with the Member States. For transnational cooperation, this would be on the basis of evaluated current performance of existing Programmes, but it is not possible to know at this stage what Programme areas would be agreed.
27. The Group felt it important, nonetheless, to present some scenarios, accepting that these would necessarily be *purely illustrative and subject to change as more information becomes available on the missing links*.

Parts of the regime relevant to Scotland

28. On the basis of the Commission’s outline proposals, the following are taken as given in modelling the financial implications:
- Scotland would have a limited interest in Convergence funding, the main source of funding in the proposed regime. The UK will not qualify for Cohesion Funding, nor would Scottish regions be expected to benefit from Convergence funding on the basis of having a GDP per head level below 75 per cent of the EU-25 average;
 - The Highlands and Islands in particular would possibly benefit from Convergence statistical effect funding, although this would not be confirmed until the precise time that qualification was determined. The status of other regions – such as the South of Scotland – with regard to eligibility for statistical effect funding is also uncertain, but considered here;
 - Scottish regions would be expected to receive Regional Competitiveness and Employment funding. Some regions might receive higher co-financing rates for areas with geographical handicaps, but there is no information on which to base estimates, so this is excluded;
 - Scottish regions would have an interest in Cooperation funding.

Annex D explains how the following forecasts were arrived at in more detail.

High scenario

29. This scenario is calculated on the basis that Highlands and Islands and the South of Scotland qualified for statistical effect funding, which is pushing the boundaries to their fullest. In addition, it assumes (a) the rest of Scotland would receive a population share of

Competitiveness funding and (b) all Scottish regions would receive a population share of Territorial funding.

30. More specifically, it has been assumed that statistical effect funding per head would, over the programme period, be at 74 per cent of the level of funding per head for regions entitled to full Objective 1 funding. It has also been assumed that the funds would go to Scotland directly i.e. as if the EU sent the population share of fund directly (although in reality it would be provided by the UK Government through the Barnett formula).

31. *On the basis of these assumptions*, total Structural Funds for Scotland over the 2007-2013 period would be €1.5 billion at 1999 prices.

32. In broad terms, this would be about a 10 per cent reduction in real terms compared to the level of funding in the 2000-2006 period.

Middle scenario

33. At present, this scenario might be more realistic. It assumes Highlands and Islands would qualify for statistical effect funding and the remainder of Scotland would receive Regional Competitiveness and Employment and Cooperation funding, again estimated on a simple pro-rata population basis.

34. *On the basis of similar assumptions as before*, Scottish Structural Funds receipts for 2007-13 would be estimated at around €1.2 billion, a reduction of around 25 per cent in real terms on current funding levels.

Low scenario

35. Here no Scottish region would qualify for statistical effect funding. All regions would receive a pro-rata share of Regional Competitiveness and Employment and Cooperation funding.

36. *Again on the basis of the assumptions above*, Scottish Structural Funds receipts over the 2007-13 period would be around €44 million, or about half the current level.

Uncertainties and way forward

37. Clearly these estimates lack robustness, but they can be amended in the future as greater information becomes known on the structure of the Commission's proposed regime. To reiterate, the critical unknowns at this stage are:

- The overall budget eventually agreed upon by Member States.
- The criteria to be used in distributing Competitiveness and Cooperation Funding;
- The payment rates of those funding elements;
- The treatment of areas with geographical handicaps;
- The allocation process from Member States to nations and regions;

Overall conclusions

38. This report represents the initial work on understanding the implications of the European Commission's proposals for the future of EU regional policy in Scotland. At present, this work is limited, as there are many details in the 3rd Cohesion Report that are not yet clear and the Cohesion and Structural Funds regime (including the total budget) that is eventually agreed may differ considerably from what is proposed in the 3CR. But what can at present be concluded from the 3CR is that:

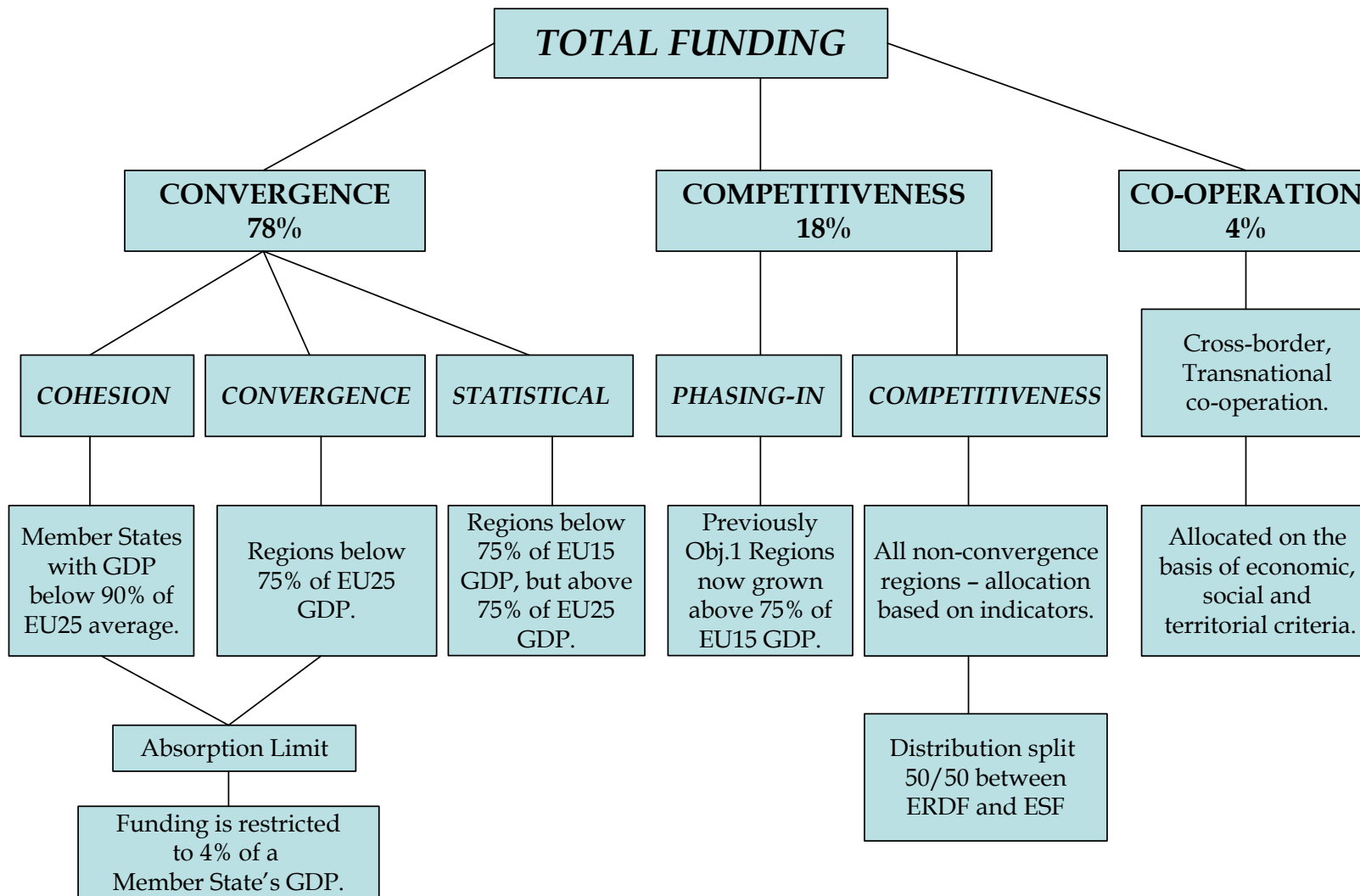
- The EU continues to experience significant regional disparities, both in the longer-standing Member States and as a result of enlargement;
- The proposed Structural Funds regime would have more of a focus than the present regime on territorial as well as social and economic cohesion, and would make all regions eligible for funding under one or other of the proposed Strands;
- The thematic focus of the Commission's proposals appears to be broadly consistent with the general thrust of the Scottish Executive's *Framework for Economic Development in Scotland* and the *Smart, Successful Scotland* strategy;
- The financial implications of the Commission's proposals for Scotland could vary significantly, depending on agreement on the overall size of the budget and where the funds are to be concentrated across the EU;
- Estimation of the financial implications of the Commission's proposals is also difficult because of a number of methodological uncertainties. These include the indicators to be used in the allocation of funds between Member States and within the UK. Moreover, the total would be very strongly influenced by whether the Highlands and Islands and/or other areas qualified for statistical effect funding under the Convergence strand, as is apparent from the illustrative scenario work described in this report. More information on some of these issues is expected to emerge in the coming months, particularly with the publication of the Commission's draft regulations in the summer.

**SCOTTISH EUROPEAN STRUCTURAL FUNDS FORUM
ANALYTICAL WORKING GROUP
MAY 2004**

ANNEX A

EUROPEAN COMMISSION PROPOSALS

EUROPEAN STRUCTURAL FUNDING 2007-13



ANNEX B: POTENTIAL STATISTICAL INDICATORS

1. The 3rd Cohesion Report proposes that funds for the Regional Competitiveness and Employment Objective strand should be allocated between Member States “on the basis of Community economic, social and territorial criteria” and then allocated within Member States (though the degree of EC influence proposed for this second-level allocation is not made clear in the report). The economic, social and territorial criteria are not identified but it has been suggested that, in addition to simple population, they might be GDP per head, unemployment, and sparsity of population.

2. The Group has therefore analysed these and other indicators compiled by Eurostat, and has compared:

- (a) UK with other Member States in EU-25;
- (b) Scotland with the rest of UK, measured at NUTS II level; and
- (c) Scotland with the rest of EU-25, measured at NUTS II level.

3. The 3rd Cohesion Report states that all regions other than those eligible for Convergence funding would be eligible for Competitiveness funding. In the Scotland-UK and Scotland-EU-25 comparisons we have attempted to take account of this. This does not apply to the UK-other Member States comparisons because many of these indicators are available at the Member State level only.

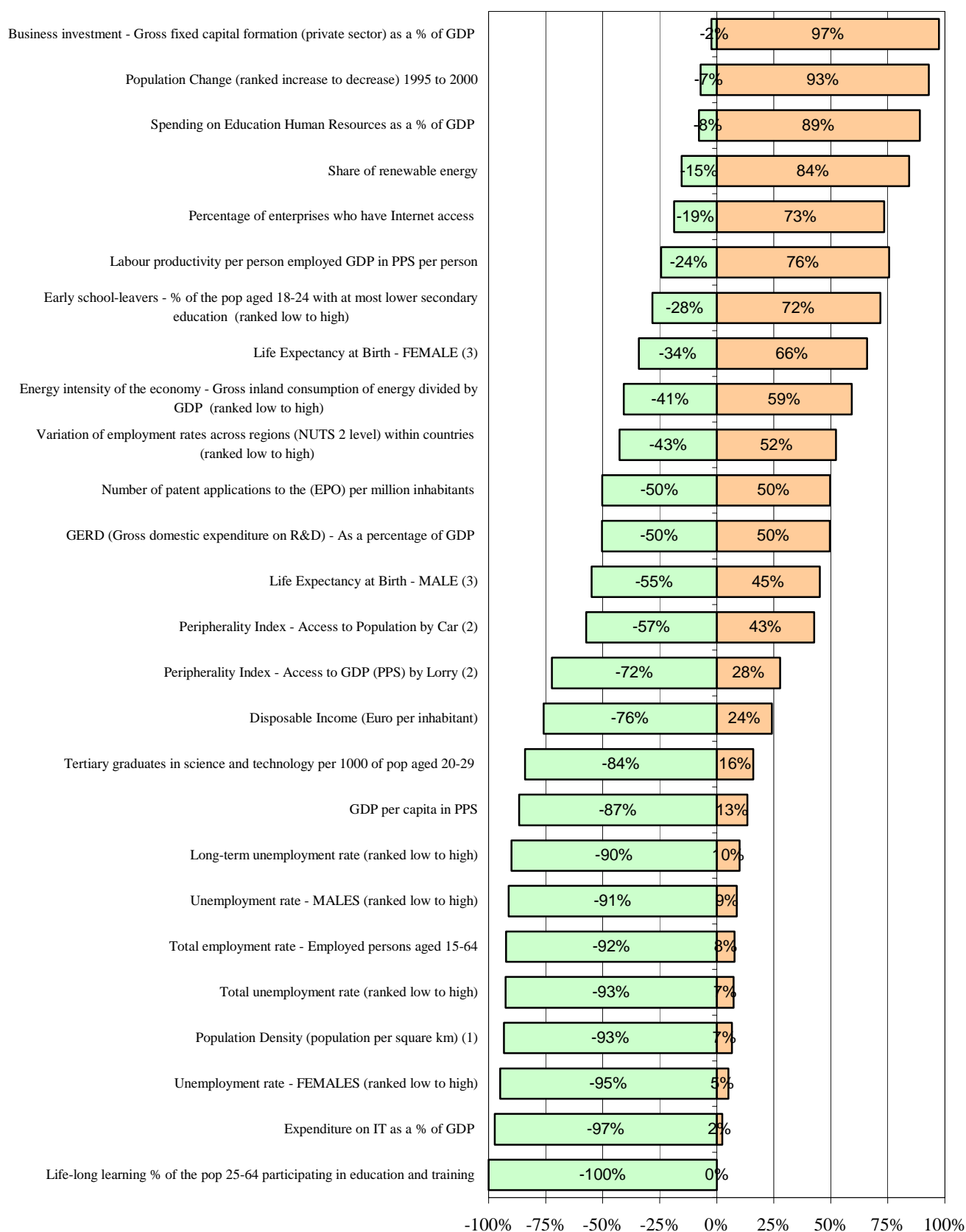
4. The attached bar charts summarise the results of the analyses in a convenient way. They show the % of population in the comparator area living in areas with a higher or lower value of the indicator than the subject area:

- The first bar chart, for example, shows the % of population in the rest of EU-25 that live in Member States where the value of the indicator in question is higher or lower than in the UK;
- The second bar chart shows the % of population in the rest of UK NUTS ii areas that are likely to be eligible for Competitiveness funding that live in NUTS ii areas where the value of the indicator in question is higher or lower than in Scotland as a whole;
- The third bar chart shows the comparison between Scotland and the rest of EU-25.

5. The bar charts show indicators ranked by the degree to which the UK or Scotland does not perform well in relation to the EU25/rest of the UK. To achieve this certain indicators have been reversed. Higher unemployment, for example, could be likely to be a factor in allocating a higher level of Structural Funds in an area so the percentage of population in the comparator area that has a higher rate of unemployment than the subject area is shown as a bar on the left of the vertical line. Similarly, the percentage of population aged 25-64 participating in education or training is higher in the UK than in any other Member State of EU-25: that might reduce the UK’s Structural Funds receipts under the Regional Competitiveness and Employment strand, so the % of population in rest of EU25 with a lower value of this indicator is shown as a negative sign.

6. For allocation of funds **within** the UK, other indicators (including additional environmental ones) would be possible as they would not need to be limited to the Eurostat indicators shown in the charts.

CHART 1: Eurostat Indicators at Member State Level - % of EU Population in Member States Ranking Above and Below the UK



(1) Data from Eurostat regional data sets (REGIO)
 (2) Data from Copus 1999 (research for 2nd cohesion report)
 (3) Data from World Health Organisation
 All other data from Eurostat structural indicators data sets (STRIND)

Percent of population in Member States ranking:
 <=== Below | Above ===>
The United Kingdom

CHART 2: Eurostat Regional Indicators - Percentage of Population in UK NUTS2 Areas Ranking Above and Below Scotland (excludes possible convergence regions)



(1) Convergence regions cannot be removed

(2) Data from World Health Organisation and Government Actuary's Dept

(3) Data from Copus 1999 (research for 2nd cohesion report)

(4) Data from ONS small business service

(5) Calculated at the NUTS1 level

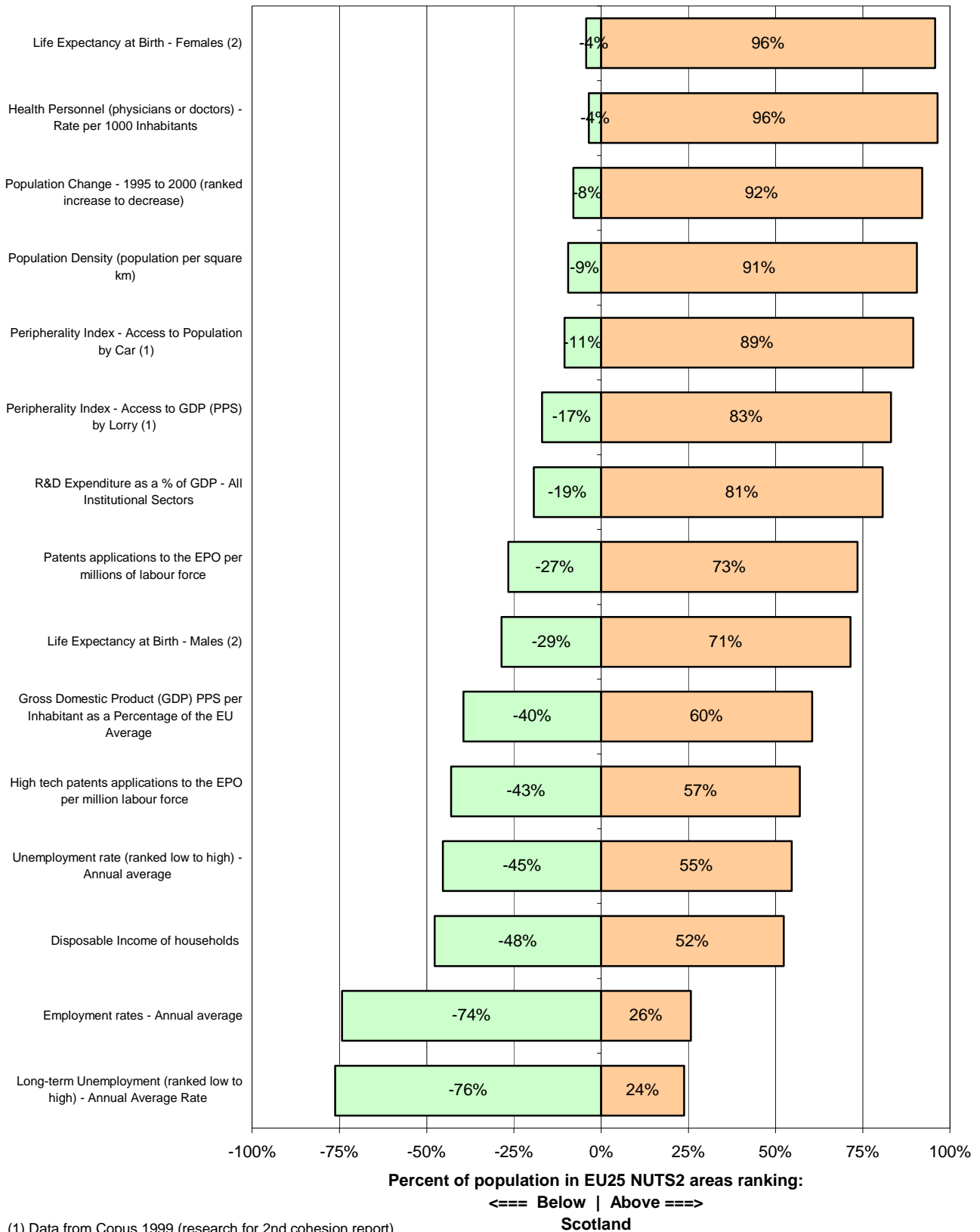
All other data from Eurostat and populations calculated at the NUTS2 level

Percent of population in UK NUTS2 areas ranking:

<=== Below | Above ===>

Scotland

CHART 3: Eurostat Regional Indicators - Percentage of Population in EU25 NUTS2 Areas Ranking Above and Below SCOTLAND (excludes possible convergence regions)

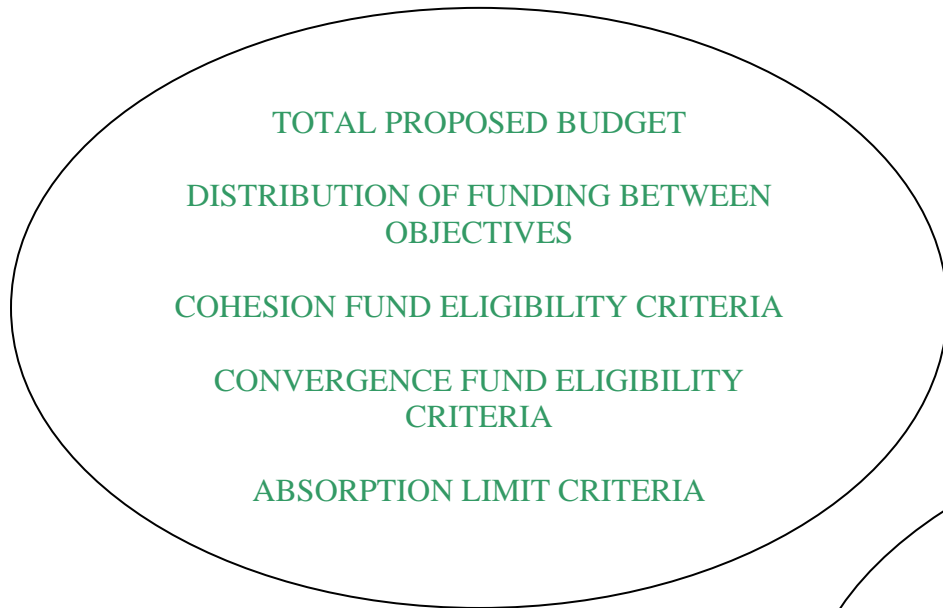


(1) Data from Copus 1999 (research for 2nd cohesion report)

(2) Data from World Health Organisation and Government Actuary's Dept at the member state level

All other data from Eurostat and populations calculated at the NUTS2 level

ANNEX C : **AVAILABLE INFORMATION**



TOTAL PROPOSED BUDGET

DISTRIBUTION OF FUNDING BETWEEN
OBJECTIVES

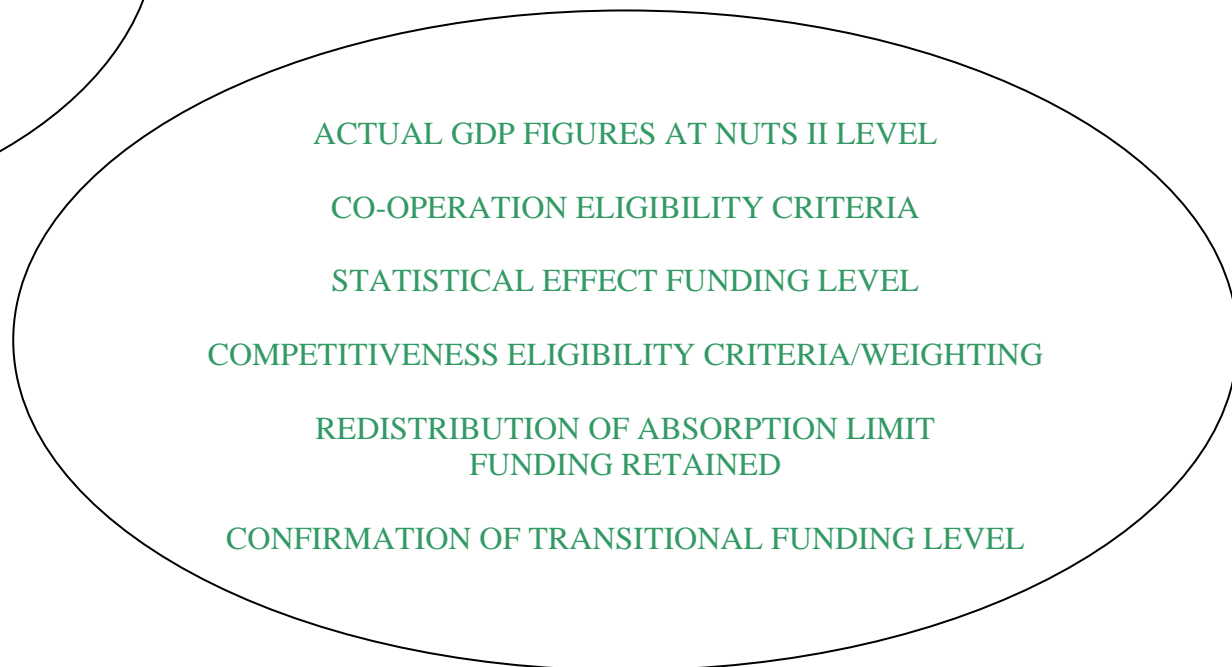
COHESION FUND ELIGIBILITY CRITERIA

CONVERGENCE FUND ELIGIBILITY
CRITERIA

ABSORPTION LIMIT CRITERIA

EU COMMISSION PROPOSALS

UNAVAILABLE INFORMATION



ACTUAL GDP FIGURES AT NUTS II LEVEL

CO-OPERATION ELIGIBILITY CRITERIA

STATISTICAL EFFECT FUNDING LEVEL

COMPETITIVENESS ELIGIBILITY CRITERIA/WEIGHTING

REDISTRIBUTION OF ABSORPTION LIMIT
FUNDING RETAINED

CONFIRMATION OF TRANSITIONAL FUNDING LEVEL

ANNEX D

METHODOLOGY

1. This Annex summarises the method by which the Group has forecast the level of Structural Funds which Scotland might receive under the proposals made in the 3rd Cohesion Report. Attention is drawn to the cautions given in the main body of the Analytical Group's report about aspects of the proposals which are not yet clear; assumptions about some of these have had to be made and are set out below.

2. So far as possible figures given in the 3rd Cohesion Report are used. 2001 data is used for GDP per head and for population but it is recognised that the reference period is expected to be average 2001-03 data.

3. The modelling starts with the Cohesion Report's proposals that the total Structural Funds budget for 2007-13 should be €336.3 billion and that it should be allocated 78% (€262 billion) to the Convergence strand, 18% (€60.5 billion) to the Competitiveness and Employment strand, and 4% (€13.5 billion) to the Cooperation strand.

Convergence

4. Funding for the **Cohesion Fund** was estimated on the basis that all EU25 Member States with GDP per head below 90% of the EU25 average would be expected to be eligible. On the basis of 2001 data all 10 Accession countries plus Greece and Portugal would be expected to be eligible. Assuming a funding rate of €40 per head per annum (the same rate as in the present programme) would require funding of €26.7 billion over the period.

5. This leaves funding of €35.3 billion for **Statistical Effect** and **full Convergence** funding. Statistical Effect funding would be expected to be allocated to NUTS II areas of current Member States which have GDP per head below 75% of the EU15 average but above 75% of the EU25 average. Full Convergence funding would be expected to be allocated to NUTS II areas with GDP per head below 75% of the EU25 average. It is assumed that the rate of funding per head for Statistical Effect might be around 74% of that for full Convergence. Using 2001 data to estimate eligible populations, this gives a rate of €87 per head per annum for Statistical Effect and €254 per head per annum for full Convergence, amounting to €5.1 billion and €83.6 billion respectively over the period. In the *high scenario*, statistical effect funding is included for both the Highlands and Islands and the South of Scotland; in the *middle scenario* it is included for the Highlands and Islands only; and in the *low scenario* it is included for no area in Scotland.

6. The 3rd Cohesion Report proposes that there should continue to be an absorption limit on the level of funding to Member States, set at 4% of a country's GDP. Using 2001 data we expect this to apply to 5 of the Accession countries. It is estimated that €36.4 billion over the period would be withheld due to the absorption limit. No indication has been found of whether or how funds withheld might be redistributed, and we have therefore not redistributed what is estimated would be withheld.

Cooperation Fund

7. Assuming that the total population of Member States might be the eligible population for the Cooperation Fund, the total of €3.5 billion over the period equates to €4 per head per annum.

Competitiveness and Employment

8. The first element forecast is the **Phasing-In Fund**, expected to be allocated to NUTS II regions which receive Objective 1 funding in the present programme but which, through economic growth, are estimated to have a GDP per head above 75% of the EU15 average. Using 2001 data to forecast eligible population and assuming funding rate per head at 50% of the rate for full Convergence (€127 per head per annum) implies that €4.5 billion would be devoted over the period to the Phasing-In fund.

9. The second element is funding for the **Competitiveness and Employment** objective, for which all regions that do not receive Convergence or Phasing-in funding are expected to be eligible. It is assumed that the total fund would be the total Structural and Cohesion budget less the total of all the other elements of funding (including the total withheld by the absorption limit). This gives a total of €46.5 billion. It is expected that Competitiveness and Employment strand funding may be allocated to Member States in part according to certain indicators of need (perhaps GDP, unemployment, and sparsity of population) but, for the forecasts given in this report, it is allocated solely according to the total population of the non-Convergence regions of each Member State. The total over the period of €46.5 billion equates to €22 per head of eligible population per annum. In the *high scenario* all regions of Scotland other than the Highlands and Islands and the South (which, in that scenario, are assumed to qualify for statistical effect funding) would get this allocation; in the *middle scenario* only the Highlands and Islands would be excluded; in the *low scenario* the whole of Scotland would be allocated Regional Competitiveness and Employment funding.