

PROGRAMME MONITORING COMMITTEE

**Preparing for 2006-13
Background Note for Programme Monitoring Committees**

1 Purpose of the paper

1.1 To bring Committee members up to date on the continuing negotiations on the future of the Structural Funds.

1.2 As with previous update papers, this paper is intended to inform Committee members on progress in the negotiations of the 2007-13 Structural Funds regulations. It covers the close period of the Luxembourg Presidency and the prospects for the UK Presidency. It also sets out early planning for developing potential future Structural Funds programmes in Scotland.

2 Progress in the negotiations

2.1 Formal negotiation on the Commission's draft European Structural Funds regulations for 2007-13 have been ongoing since September 2004. The negotiations are being pursued along two tracks: the European Structural Funds regulations themselves in the Structural Actions Working Group (SAWG) and wider budgetary and financial matters through separate channels.

2.2 On the budget issue, a strong effort was made in June at the Brussels Council to secure a deal. The Luxembourg 'negotiating box' proposed a spending ceiling of 1.06% of EU GNI – smaller than the Commission's original proposal, but higher than the ceiling of 1% proposed by the UK and a number of other Member States. The compromise deal proposed some cuts to Structural Funds resources under all Objectives, but nearly half of resources would continue to be targeted at the EU-15, as in the Commission's original proposal. The deal proved to be unacceptable to a number of Member States, including the UK. Indeed, the Prime Minister argued that the budget negotiations presented an opportunity for wider-ranging budget reform, encompassing CAP spending, amongst other issues.

2.4 A resolution to the budget negotiations will be pursued in the UK Presidency and efforts will continue to secure a budget agreement. However, given the differences between Member States revealed at the Council meeting, the possibility of the negotiations spilling into 2006 remains strong, especially as there is now likely to be a period of reflection by all parties. Whatever the outcome of the budget negotiations though, it is hoped that remaining differences on the content of the Structural Funds regulations themselves will be resolved.

2.5 In early July, the Commission published its draft of the Community Strategic Guidelines for comment from partners by 20 September before a final version is presented to the Council for agreement. The Guidelines are the high-level strategic priorities for EU regional policy which are proposed by the Commission but agreed by the Member States through the Council. They set the key priorities which Member States and ultimately, programmes, should address at a general level. In particular, the Guidelines present 3 overarching priorities:

- making Europe and its regions a more attractive place to invest and work;
- improving knowledge and innovation for growth; and
- more and better jobs.

2.6 In their detail, the draft Guidelines reflect many of the priorities embedded in Scotland's key strategies. However, there are some areas which the Executive – in common with the UK – has argued should be given greater emphasis. In his meeting with the EU Regional Policy Commissioner, Danuta Hubner, in Brussels on 17 May, the Deputy First Minister, Jim Wallace, made the point that Community Economic Development should be given greater prominence as a theme given its potential to contribute to achieving the Lisbon and Gothenburg agendas. The July version of the Guidelines reflects a stronger emphasis.

3 Programme preparation

3.1 As noted in previous reports to the Programme Monitoring Committee, while negotiations have not been concluded, preparations for provisional programmes have begun in Scotland, as they have in other parts of the UK. However, no decisions have been taken on final arrangements, as there are several areas requiring further research and wider discussion. The Executive's preliminary views on taking forward programme planning were set out at the 13 June meeting of the European Structural Funds Forum, which is chaired by the Deputy Minister for Enterprise & Lifelong Learning. Forum papers can be found on the Executive's website here: <http://www.scotland.gov.uk/Resource/Doc/917/0013849.pdf>.

3.2 The paper on planning future cohesion policy in Scotland made 4 broad points. First, against a background of the likely reduced scale and scope of EU funding (if Scotland is to receive any mainstream funding), there would be a need for a new, more strategic approach. A high premium would be placed on targeting Structural Funds on those value-added activities that closely fit with existing policy initiatives. Consequently, future programme priorities would closely complement those set out in key strategies such as the Framework for Economic Development in Scotland, Smart Successful Scotland and the Employability Framework.

3.3 Second, programming should be conducted on the basis of 4 mainstream programmes: single ERDF and ESF programmes for the Highlands & Islands under the Convergence Objective (as a potential 'statistical effect' region) and for Lowlands Scotland under the Competitiveness Objective. In the case of Lowlands Scotland, single ERDF and ESF programmes have been recommended given the likelihood of greatly reduced funding at best, making the operation of multiple programmes complex, expensive and vulnerable to the continuing requirements of 'N+2'. A variety of mechanisms would be explored to ensure that the new programmes accommodate the spatial needs of different parts of Scotland.

3.4 Third, programme delivery would need to change in future as well. In line with the more strategic approach, the Executive is considering the potential for 'co-financing', a single-stream approach to funding in which blocks of Structural Funds are directly integrated with existing channels for domestic funding. An independent study has been commissioned to examine the models of single-stream funding in other parts of the EU (as well as England, where a version has been used for its Objective 3 programme) and their applicability to Scotland.

3.5 Lastly, with fewer programmes to deliver, the current PME system would need to be rationalised. Instead of the current panel of 5 PMEs, it is envisaged that only 2 delivery bodies would be required in future: one covering the Highlands & Islands, the other, Lowland Scotland. The size and responsibilities of these bodies would depend on how much funding Scotland is to receive. Their relationship with the Executive would develop from the

Operating Agreements recently concluded with the Executive by four of the five PMEs. Their selection would also need to be done on a competitive basis in line with Executive policy and the observations of the European Court of Auditors report on the PMEs.

3.6 Over the course of the next few months, the Executive will draw up a set of programme priorities on the basis of what the draft regulations allow and existing domestic policy strategies. These will be presented at a series of stakeholder/partner events in the late autumn along with the findings of the co-financing study described above. Details of these events will be distributed presently. The aim is for the priorities to be set by the end of this year so that they can form the basis for programme drafting in the first half of 2006.

4 Recommendations

4.1 It is recommended that the Committee notes the content of the paper.

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