

EUROPEAN STRUCTURAL FUNDS FORUM

MINUTES OF MEETING HELD ON FRIDAY 13th JUNE 2005 MERIDIAN COURT, GLASGOW

Present

Allan Wilson MSP (Chair)	Deputy Minister for Enterprise and Lifelong Learning
Elsbeth Attwooll	Member of European Parliament
Eddie Carrick	East of Scotland European Consortium
Sir Ken Collins	Chairman, Scottish Environment Protection Agency
Liz Connolly	Chief Executive, Scottish Enterprise Lanarkshire
Cllr Malcolm Green	Glasgow City Council
Cllr Alison Magee	Convener, Highland Council
Cllr Corrie McChord	Clackmannanshire Council
Cllr David Parker	Leader, Scottish Borders Council
Frank Pignatelli	Chief Executive, Learndirect
Esther Roberton	Chair, Scottish Further Education Funding Council
Martin Sime	Chief Executive, Scottish Council for Voluntary Organisations
Alyn Smith	Member of European Parliament
Catherine Stihler	Member of European Parliament
John Swinney MSP	Convenor, European & External Relations Committee of the Scottish Parliament
Pat Watters	COSLA
Graeme Dickson	Head of Enterprise & Industrial Affairs Group, Scottish Executive
Diane McLafferty	Head of European Structural Funds Division, Scottish Executive
Mabel Hildebrand	European Structural Funds Division, Scottish Executive
Nigel Lindsay	European Structural Funds Division, Scottish Executive
Jim Millard	European Structural Funds Division, Scottish Executive
Phil Raines	European Structural Funds Division, Scottish Executive
Graham Watson	European Structural Funds Division, Scottish Executive
Paul McFadden (Secretariat)	European Structural Funds Division, Scottish Executive
John Ireland	Head of Analytical Services Division, Scottish Executive
Iain Matheson	Farm Business Restructuring, Scottish Executive Environment and Rural Affairs Department
David Simpson	Chamber Office, Scottish Parliament

Apologies

Rowena Arshad	Dept of Educational Studies, Edinburgh University
Campbell Christie	Chairman, Scotland Europa
Gerard Madill	Universities Scotland
Irene Oldfather MSP	Deputy Convenor, European & External Relations Committee of the Scottish Parliament
Cllr Drew Ratter	Conference of Peripheral & Maritime Regions
William Roe	Chairman, Highlands & Islands Enterprise
Grahame Smith	Scottish Trade Unions Congress
Alan Wilson	Chief Executive, Scottish Council Development and Industry

Welcome

1. The Deputy Minister for Enterprise and Lifelong Learning welcomed members to the meeting and invited them to introduce themselves.

Minutes of 6 December 2004 meeting and matters arising

2. The minutes of the last meeting were confirmed as a true and accurate record.

3. Elspeth Attwool MEP asked for an update on progress with the new regional State Aids guidelines. Graeme Dickson confirmed that the Commission had issued a consultation document on which the UK was going to comment by September. The Commission were also expected to issue the draft guidelines soon. The dates for the issue of both of these documents had slipped several times but there was no evidence of further delay on the guidelines. Informal intelligence indicates that there will be an increase in the proposed population coverage for Scotland. The Deputy Minister stated that the key issue was ensuring that assistance was targeted at those who needed them.

Financial performance and implementation of the 2005-06 Scottish Programmes

4. Nigel Lindsay introduced paper 1 which provided an update on current progress towards the financial 'N+2' targets for the Structural Funds programmes for 2005. He explained that, although the achievement of N+2 in 2004 was significant, progress in 2005 would be more challenging. Although maximum commitment levels have often been met these needed to be transformed into spend. Although there were some healthy stories so far, Mr Lindsay emphasised that a joint effort was needed from PME's, the Scottish Executive and partners to increase the rate of conversion into spend.

5. The Deputy Minister thanked partners for last year's efforts but emphasised the need for continuing efforts in 2005.

General Implementation issues

5.1 Annual Implementation Reports (AIRs) and the Mid Term Evaluation Updates (Paper2)

6. Phil Raines introduced Paper 2 which provided an update on the Annual Implementation Reviews (AIRs) and Mid-Term Evaluation Updates. The AIRs have been completed and will form the basis of the Annual Review Meeting with the Commission in July.

7. He also updated the meeting on the progress of the Mid-Term Evaluation Updates which examine the performance of programmes against targets and assess progress in implementing the recommendations of the mid term reviews. Copies of the Update reports would be provided to members. There had been a series of stakeholder events inviting comments from key participants. The Updates would be completed by the end of the year.

Voluntary Management Subscriptions (VMS)

8. The Deputy Minister invited Nigel Lindsay to present Paper 3, highlighting Commission concerns about the use of Voluntary Management Subscriptions (VMS) for the financing of SMEs. Nigel Lindsay explained that it seemed very unlikely that VMS would be acceptable for future programmes as the draft regulations had tightened the requirements. However, it was hoped that the Commission would accept their continued use for current programmes if some agreement could be reached. There had been useful discussions with the Commission already. The Commission were encouraged by the fact that the issue was being treated at political level and this, combined with the fact that SMEs had sought legal advice, has made them recognise the seriousness of the issue. It was hoped that a solution could be endorsed at the Annual Review Meeting on 6th July.

9. Martin Sime asked if more information could be provided on how SMEs were funded in other countries and the scale of the problem. Nigel Lindsay explained that most countries did not have SMEs. Germany, for example, managed funds through central Government and its agencies. Quantifying the scale of the problem was difficult.

10. In reply to a question from Ken Collins, Nigel Lindsay explained that the Commission's concerns were not with regards to the SMEs status as private companies but their use of a percentage contribution which could be viewed as a levy.

11. Alison Magee stated that a de-centralised solution was important in the interests of subsidiarity and that members needed to be kept informed of potential solutions.

12. Eddie Carrick stressed the seriousness of the situation, explaining that local authorities could not pay if they were not invoiced by SMEs. The situation needed to be resolved before 2006.

13. Malcolm Green emphasised the urgency of the situation. If no solution was reached the Executive must communicate this immediately to SMEs to consider their options.

14. Elspeth Attwool suggested sending a cross-party letter from MEPs to the Commission. Diane McLafferty agreed that it would be helpful if there were cross-party efforts to explain that this situation was counter-productive and put meeting N+2 targets at risk. She also highlighted that the Executive took part in a cross-DG meeting with the Commission in May where it was explained to the Commission that the SME financing system was purely voluntary. She said it was helpful that DG Regio had recognised the extent of the problem.

15. The Deputy Minister stated that the Executive would be reluctant to abandon the voluntary system which gave partners a say in programme implementation. He agreed that we should be proactive and that the Executive would consider all options. He also agreed that cross-party pressure on the Commission would be very helpful.

Future of the European Structural Funds

Update on 2007-13 European Structural Fund Negotiations

16. The Deputy Minister opened the discussion on the future of the Structural Funds. Although progress had been made since the last meeting, a number of issues had still to be addressed and might not be resolved this year. In the meantime we needed to look ahead at the problems Scotland could face depending on the outcome of the negotiations. He invited Phil Raines to present Paper 4 which informed members of recent developments in the EU budget negotiations.

17. Phil Raines began by explaining that the paper had been overtaken by recent events, specifically the European Constitution referenda in France and the Netherlands and the forthcoming General Council meeting. In particular, the shape of Structural Funds could be affected by the outcome of this Council. He explained that negotiations over the Luxembourg Presidency had been slow, but there had been some progress, particularly on the Community Strategic Guidelines. On the latter issue, the UK was pushing for the inclusion of Community Economic Development within the Guidelines, an issue which had been underlined by the Deputy First Minister in his recent meeting with Commissioner Hübner.

18. John Swinney MSP made an observation about the seriousness of the negotiations highlighting that Structural Funds were likely to take the strain of budget negotiations with considerable consequences for Scotland. This had been abundantly clear to the European and External Relations Committee of the Scottish Parliament when they had met Graham Meadows. He also asked how the Scottish Executive were planning for future programmes given the lack of clarity. The Deputy Minister replied that the Executive intended to begin planning now for future programmes to ensure that we were ready for a full range of potential scenarios.

19. Ken Collins asked for clarification on the role of Co-Decision by the European Parliament in agreeing regulations and the overall budget. Elspeth Attwool outlined the European Parliament's role in the process.

20. Malcolm Green asked whether there was a disproportionate risk to the Competitiveness Objective. Phil Raines explained that in the latest 'Negotiating Box' the resources allocated to Competitiveness had been reduced.

21. Esther Robertson asked whether there was scope for altering the priorities outlined by the Scottish Executive in the Annex of paper 4. Phil Raines explained that although there would be a squeeze on funds there was flexibility on how the EU priorities could be interpreted in Scotland.

22. Pat Watters emphasised the need for subsidiarity and the importance of Community Economic Development.

23. The Deputy Minister concluded the discussion by stating that the Scottish Executive would be keeping an eye on new and developing positions in negotiations. He reiterated that the Executive aimed to maximise receipts to Scotland irrespective of the source of funds and that it was important funding was targeted appropriately.

Planning for future Cooperation Objective

24. Jim Millard presented Paper 5 which set out the planning framework for the development of future Structural Fund cooperation programmes from 2007. This outlined the current Cooperation Programmes operating in Scotland and explained the Commission's proposals for 2007-13. At the moment Scotland only operated transnational programmes but the Commission's proposals had added flexibility across maritime borders which had raised the possibility of a future Scotland-Ireland-Northern Ireland cross-border programme. Executive officials had begun informal discussions with Irish and Northern Irish colleagues to explore the possibility of a future programme. Officials were also working closely with Nordic colleagues to look at broadening the Northern Periphery transnational programme. On funding, the Commission's original proposals had suggested an increase in the cooperation budget, but the Luxembourg Presidency had reduced these figures in its final compromise proposal.

Planning for future cohesion policy

25. Phil Raines provided a presentation on planning for future cohesion policy in Scotland (Paper 6). He began by reiterating the need to start planning now to meet the 1st January 2007 deadline. The paper proposed key principles to be reflected in future programmes but the provisional basis of any potential programmes was emphasised because of the unique degree of uncertainty which existed.

26. The background to the potential changes in funding were outlined. First of all, although it was not possible to obtain an accurate figure on how much money would be available it was clear that, if Scotland was to receive any support, it was likely to be a lot less than current levels. In addition there was a need to adapt because of more limited thematic eligibility. There was also a need to complement the new strategic environment in Scotland following the refreshing and development of Smart Successful Scotland, the Framework for Economic Development and the Employability Framework. The four main proposals in the paper were:

- Planning on the basis of 4 programmes: 1 ERDF and 1 ESF programme each for the Highlands and Islands (Convergence) and Lowlands Scotland (Competitiveness);
- Introduction of co-financing in the delivery of part of future programmes;
- Rationalisation of programme management with a reduction to 2 delivery bodies;
- The establishment of stakeholder groups for programme development;

27. Ken Collins raised a number of points in relation to the proposals. He started off by pointing out the role of SMEs in ensuring sensitivity to local issues. There should also be an awareness that the needs of local authorities might be overlooked if the system was too centralised. Mr Collins thought we should be aware of criticisms of co-financing which existed elsewhere. He pointed to the example of Jobcentre Plus in England which he thought was inflexible and often too focused on meeting stringent targets. He welcomed the intention of the Scottish Executive to commission an independent evaluation to examine relevant studies on co-financing but emphasised the need for consultation.

28. Mr Collins also pointed out the following concerns about the proposals:

- There could potentially be a lack of additionality;

- The system needed to be flexible;
- Any delivery system needed to consider the issue of risk and not simply fund ‘safe’ programmes;
- There needed to be responsiveness to locality, stakeholders and clients. If too centralised, this element would disappear. There might be efficiency in terms of meeting targets but the targets themselves might not be ambitious.

29. Elizabeth Attwool MEP emphasised the need to fully research the implications of the proposals before a final decision was made. In particular, she would hate to see the removal of the partnership element.

30. Catherine Stihler MEP pointed out the dangers of co-financing setting partners against each other and emphasised the risk of losing the partnership approach, particularly for the voluntary sector.

31. Martin Sime confirmed that the voluntary sector was concerned. He echoed Ken Collin’s concerns about the loss of additionality and responsiveness and added that the proposals could reduce diversity and transparency.

32. Malcolm Green thought that, at first sight, co-financing had advantages, particularly with regard to better alignment of funds with strategic priorities and the prospect of reducing N+2 compliance problems. However, he also thought there were potential disadvantages. He was less concerned about the reduction in the number of programmes and more concerned at the loss of a de-centralised model which was being commended in the EU. Mr Green also supported the proposed study and asked for partners’ views to be taken into consideration by the study. The Deputy Minister agreed that there was a lot to discuss and that the Scottish Executive was keen to consider as many views as possible.

33. Frank Pignatelli reiterated the need for an element of risk in Structural Funds delivery to ensure the encouragement of new and interesting projects over and above those which simply fit with national priorities.

34. Corrie McChord was concerned that the new Community Planning Partnerships had not been specifically mentioned in the paper as delivery mechanisms.

35. Alyn Smith MEP asked whether the Scottish Executive was certain about having 2 programmes. David Parker also wanted clarification of whether the Scottish Executive was fixed on the 2 PME model. The Deputy Minister replied that the paper was clear on this issue.

36. Phil Raines replied on a number of the issues raised. On co-financing he reiterated that the Executive was not proposing an off-the-shelf system and that co-financing would only be used where it was sensible to do so. It would not necessarily make use of Government agencies and could use, for example, Community Planning Partnerships. He emphasised that any Scottish system would need to take account of Scotland’s experience and, more importantly, the fact that there would be less money for allocation. The independent study would be important in this respect and it would look at a wide variety of systems, including those in other Member States as well as in England. When asked about the reference to relevant studies in the paper he pointed to the report by Fraser Associates on the English ESF system. Ken Collins asked for the Fraser report to be circulated.

37. Frank Pignatelli asked for the Executive to take account of all issues raised in the discussion. The Deputy Minister confirmed that nothing had been ruled in or out in considering the way forward and that the Scottish Executive would be informed by the study to be commissioned by the Executive. He also emphasised that it was important for the Scottish Executive to ensure that its own responsibilities and objectives were met.

Date of next meeting

38. The Deputy Minister thanked members for their contributions and for attending and suggested that the Forum meet again towards the end of the year. ESFD officials would be in touch in due course to propose a date for this meeting.

**Scottish Executive
European Structural Funds Division
June 2005**