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To: Economic Development Cabinet Committee
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Subject: REGIONAL AID AND STRUCTURAL FUNDS REVIEW

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Summary

At the end of 2013, the current European rules on regional aid expire. Work is now underway at European and national levels to design the new arrangements that will apply from 2014 onwards. Likewise, consultation has been taking place on the shape of the new Structural Funds regime 2014-20 based on the Commission's draft Regulations published in October 2011.

Any new arrangements will have implications for Kent, as they will affect:

- The extent to which public assistance can be provided to business and the future status of the East Kent Assisted Area;
- How future European Union Structural Funds programmes will be allocated, developed and managed.

Consultations on the proposed new arrangements for both regional aid and the Structural Funds are still at an early stage and there is an opportunity for Kent to influence the development of new proposals in both areas. KCC has also already been engaging with the European Commission, the UK government and local and European partners in developing its position on post-2013 Structural Funds.

This paper therefore summarises the implications for Kent of the changes to both regional aid and Structural Funds arrangements and sets out options for KCC's strategic response.

1. Introduction

1.1. The European Union has a significant role in regional economic development policy, which it influences in two ways:

- Firstly, by **setting the rules** within which public assistance (or 'state aid') may be provided to business. This includes influencing the designation of specific locations as **assisted areas**, where higher levels of state aid are permitted. Essentially, the rationale for European involvement is to ensure that competition within the single market is not undermined by excessive use of subsidies;

- Secondly, by **providing funding** to economic development initiatives through the use of European Structural Funds intended to support less developed areas, or to promote competitiveness overall, including through transnational cooperation (Interreg).
- 1.2. The regional aid rules and the strategy for the use of the Structural Funds were both last reviewed in 2006, and the present arrangements remain in force until December 2013. From January 2014 onwards, new arrangements will apply and will last until 2020.
 - 1.3. The next section sets out the implications of the review of the regional aid rules and assisted areas and outlines some potential policy lines for Kent. Section 3 discusses the emerging proposals for the future of the Structural Funds and highlights the key issues for Kent.

2. The review of the regional aid rules and assisted areas

The current position in Kent

- 2.1. European rules limit the amount of state aid which can be provided to business. Some forms of direct financial assistance can be provided throughout the country, mostly focused on support to SMEs and involving relatively modest amounts of public funding.
- 2.2. However, in recognition of the economic difficulties facing East Kent, the whole of Thanet district and the Sandwich, Eastry and Whitfield wards of Dover are currently designated as **assisted areas**. This means that:
 - Limited grant funding can be provided (at up to 15% of project cost) for investments by large businesses – offering an incentive to inward investors and major employers with expansion plans
 - Grant funding can be provided at up to 35% of project cost for investments by SMEs (compared with 20% elsewhere).
- 2.3. Recently, the benefits of assisted area status have become more apparent with the establishment of the Expansion East Kent Regional Growth Fund programme. In addition, assisted area status offers the potential for enhanced capital allowances on the Discovery Park Enterprise Zone, should the Government wish to make them available.

The review process

- 2.4. Over the next 18 months, the location of assisted areas will be reviewed, which will mean that a case will need to be made for the retention of East Kent's status.
- 2.5. There are two phases to the review process. Firstly, a formula will need to be agreed for determining the amount of population in each EU state that can be covered by assisted area designation. Secondly, once this formula is agreed, it will be for the UK Government (via BIS) to determine how this should be distributed domestically.
- 2.6. Over recent decades, the proportion of the UK that has been covered by assisted area designation has fallen steadily as the EU has expanded to incorporate countries in Eastern Europe. In Kent, this has meant that parts of Swale and Shepway have ceased to benefit from assisted area status, and the only part of Kent now covered is Thanet and Dover.

- 2.7. It is likely that this trend will continue, although the extent to which the UK 'loses out' will be determined by the formula adopted. If the current formula were to be used, the amount of the UK population covered would fall from about 24% to about 23%.
- 2.8. The European Commission is expected to publish its new Regional Aid Guidelines in draft form in December 2012. While we do not yet know what these will contain, the Commission has raised the prospect of a new formula, which would reduce coverage sharply. It has also flagged a proposal to end all regional aid to large companies, which would prevent grant assistance to major companies (i.e. those with over 250 employees) seeking to invest in East Kent. It is understood that the UK Government opposes both these measures.
- 2.9. Once the Commission's Aid Guidelines have been agreed following consultation, the designation of assisted areas within Britain will be the responsibility of the UK Government. It is anticipated that the UK Government will consult on criteria for designating assisted areas some time in mid 2013, and will publish a map for consultation thereafter.

Kent's position

- 2.10. We will probably not be in a position to formally respond to the Government's consultation on the review of assisted areas until the second half of 2013. However, initial meetings have taken place at officer level with BIS to discuss how we might respond.
- 2.11. Initially (and depending on the draft Regional Aid Guidelines), we may wish to lobby (for example via Kent MPs and MEPs) for **retention of the current formula** for distributing assisted areas at European level, supporting the Government's position, which would offer the best prospect of a good overall UK deal.
- 2.12. Once consultation on the UK map begins, there are some issues that we may wish to start to consider:
 - **Should we make a case for extending the assisted area to include other parts of Kent?** The likelihood is that it will be challenging to retain what we already have, so we may need to be careful that we do not weaken the case for East Kent. However, statistical and strategic arguments could be made for other parts of the county (such as the Isle of Sheppey).

It is likely that other locations in the LEP area – such as Hastings and Tendring (Clacton) - will also make a case, and the idea of a joint LEP position has been raised. However, there are risks to Kent in adopting such a position, as an increase in the proportion of the South East covered by assisted area designation is highly unlikely.

- **How do we best make the case for retaining East Kent's designation?** Initial discussions with BIS have indicated that they would like to see a greater demonstration of how assisted area status is integrated into local economic strategy. We have the potential to clearly demonstrate this in East Kent, building on the development of the East Kent Growth Strategy, the Grow for It campaign and the opportunities presented by Expansion East Kent.

- **What criteria should we press for at national level?** Historically, the case for assisted area status has been based on a 'deficit model' (low GVA, high unemployment, etc.). However, there are some more positive arguments for East Kent, based on maximising the existing RGF and other investments, which we may wish to make more strongly.

3. European Union Structural Funds

The current position in Kent

- 3.1 Since late 2008, KCC and Kent organisations have secured some £30 million in EU grants under the current Structural Funds programming period 2007-13 for projects supporting our business priorities. Amongst the most important EU funding sources for Kent have been the **Interreg IVA 2-Seas** and **Channel** programmes and the **South East ERDF Competitiveness** programme, whilst funding for rural economic development is channelled through the **LEADER programme**.

The review process

- 3.2 In October 2011, the European Commission published proposals and draft Regulations for the future Structural Funds programming period 2014-20. This signalled the start of at least 18 months of detailed legislative proposals between the Commission, the European Parliament and the Member States through the European Council.
- 3.3 Under the Commission's proposals, Kent looks likely to remain eligible for a number of the major Structural Funds programmes in 2014-20, including the Cooperation (Interreg) and Competitiveness programmes.
- 3.4 In addition, the Commission has proposed a number of other forms of funding, including:
- A new focus on sustainable urban development;
 - Community-led local economic development, such as LEADER;
 - Recognition of 'functional economic areas' (which could potentially be counties or Local Enterprise Partnership areas) as a potential basis for allocating and managing programmes, including through 'Integrated Territorial Investments' (ITIs) which are financed by 'bundled' funding from several sources;
 - Funding for innovation to be dependent on the development of local innovation strategies. This could be of particular benefit to Kent and, in May 2012, KCC's Regeneration Board endorsed the further development of an initial outline prospectus into a full Kent Innovation Strategy – progress on this will be reported to a future meeting of this Committee.

Consultations

- 3.5 At national level, a number of consultations have been launched to inform the UK government's position on the future of the Structural Funds 2014-20, including a DCLG Select Committee Inquiry specifically related to implementation of the European Regional Development Fund (ERDF) in England, and an informal consultation by BIS on delivery of the new funding regime.
- 3.6 KCC provided responses to both consultations, highlighting, for example, our concerns about the £1 billion in ERDF funding still uncommitted by other

English regions at the beginning of 2012, and the importance of Interreg to the county, drawing on a joint lobbying paper on this issue developed with our European partners in Pas de Calais and West Flanders.

- 3.7 On 26 November 2012 KCC also hosted at County Hall one of the Government's series of Roadshow Events across England on its proposals for a new streamlined approach to EU funding 2014-20. Representatives of four government departments (BIS, DCLG, DWP and DEFRA) outlined key elements of a proposed new 'EU Growth Programme' to some 70 participants from across the South East. This proposed a simplified delivery model by combining the different Structural Funds into one programme which delivered priorities for innovation, SME Competitiveness, skills, low carbon and employment. Local Enterprise Partnerships would have a key role, including devising an EU investment strategy and receiving 7 year 'notional' allocations of funding.

Kent's position

- 3.8 Although final agreement on the future Structural Funds proposals is still some way off, it will be important to influence the development of future programmes in order to maximise the opportunities for Kent in the new programming period.

- 3.9 Key issues we may wish to consider include:

- **How can we better link EU funding with local economic priorities?** The Commission's draft proposals support the integration of EU structural funds with other programmes at local level through **Integrated Territorial Investment** plans (see above), based on functional economic areas. This could mean management of EU funding at county level or at LEP level, and we may wish to consider how we would manage either option.
- **How do we secure a more equitable distribution of funding from a proposed 'EU Growth Programme' in the future 2014-20 programmes?** The current South East ERDF Competitiveness programme (€23 million) is in contrast to other English programmes up to 30 times larger (e.g. North West - €750 million) which have found it difficult to spend the money. We are currently working closely with Essex and East Sussex County Councils to lobby for a substantial future programme based on the South East Local Enterprise Partnership (SELEP) area. In this regard we are arguing for the Government to allocate more funding to such areas as they best placed to deliver its priorities for growth, competitiveness and employment.
- **How do we make sure that Kent is included in the geographical scope of future programmes?** On **Interreg** cross-border cooperation, we will also argue that the programme's geography should be focused on neighbouring cross-border areas such as Kent and Nord-Pas de Calais and on priorities with a clear cross-border dimension such as transport, logistics, migration or cross-Channel tourism. A joint initiative involving most, if not all, of our closest European and UK Interreg partners on the future of Interreg is likely to secure much more influence with the European Commission and national governments than acting alone.

- 3.10 In addition, other issues include:

- Achieving eligibility (through our work with SELEP) of the Kent-Essex Thames Gateway for future EU-supported actions for sustainable urban development;
- Securing KCC representation on key decision-making committees for the new arrangements when they are established;
- Influencing the **Partnership Contract** to be drawn up between the UK government and the Commission, which will set out the priorities for the UK Structural Funds programmes. There will be a particular opportunity to influence this process via an LGA Working Group and KCC's membership of the Programme Preparation Group (PPG) for Interreg;
- Taking forward the development of an Innovation Strategy for Kent where it offers a potential route to securing future funding and links with existing priorities.

4. Recommendation

- 4.1 Economic Development Cabinet Committee is asked to NOTE the current position on the review of Regional Aid and the Structural Funds, and to RESPOND in particular to the issues raised at paragraphs 2.12 and 3.9 respectively.

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