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Convener
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Scottish Parliament
EDINBURGH
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Dear Christina

Further to my officials' appearance at your business planning day, and in advance of my session on the 19th September, I thought it would be useful to set out some information on EU Funding.

I know this topic has, rightly, been of great interest to the Committee. The Scottish Government, working with Scotland Europa and key Scottish agencies, has in place a strategy for active Scottish engagement in the new round of EU funding from 2014-20.

Multi-Annual Financial Framework (MFF)

European Funding, agreed under the Multi-Annual Financial Framework (MFF), divides in practice into two key elements: funding where programmes are allocated to Member States/parts of Members States, such as the Common Agricultural Policy, Fisheries Funding and Structural Funding; and funding which is allocated across the European Union or in multinational areas of it on a competitive basis. The key competitive funds include:

- Horizon 2020 (mainly research and development);
- Erasmus, promoting student exchanges and mobility;
- Connecting Europe, promoting connections in Energy, Transport and Digital;
- LIFE, promoting environmental action;
- the Cross Border and Transnational Interreg programmes, formally part of structural funds and allocated to a number of regions or Member States depending upon the focus of the particular programme (examples of relevance to Scotland include the

Northern Periphery programme, the Scottish/ Irish Cross Border programme; the Atlantic area programme; and the North Sea programme.)

Fuller details on these funds and our strategy to promote Scottish engagement are set out in the Annex to this letter.

Structural Funds

European Structural and Investment Funds (Structural, Rural and Fisheries) have played a significant role in supporting the Scottish economy. With the focus firmly on EU 2020, it is clear that the funds will need to be targeted at fewer areas for bigger impacts. We expect to set out, by the end of the year, the Scottish chapter of the UK Partnership Agreement which will set out a common strategy for EU funding to reach EU 2020 targets and respond to Commission recommendations. This will include shifting emphasis to the low carbon economy; enhancing environmental protection; raising and matching skills to future growth opportunities; helping businesses become more innovative and competitive and providing increased employment opportunities. The European Territorial Co-operation Funds will be part of that common strategy for funding projects which are either not possible under the mainstream funds, or projects which complement the main funds and add value by increasing international co-operation.

Identifying long-term programmes of work, with clear lead partners and agreed funding to deliver specific outcomes and changes, will also allow us to better align with the EU competitive funds. This should ensure, for example, that low-carbon efforts complement what is possible - for instance, through LIFE, the competitive EU fund - and that innovation support helps commercialise research funded through Horizon 2020.

At present, the Council of Ministers in the EU and the European Parliament are negotiating the European budget for the 2014 – 2020 funding period. The EU Multi-Annual Financial Framework determines the overall Structural Funds allocations for the Member States. Each Member State then allocates the funds within its territory according to need and capacity to meet the overarching objectives agreed at EU level. While these discussions are on-going, we have secured an allocation deal on Structural Funds with the UK Government, which means that despite falling EU budgets, Scotland will only see a 5% reduction in these funds, to approximately €795 million over the seven year period, enabling continued investment in all areas of Scotland with these funds. There may also be additional funding available for the South West of Scotland region to tackle high levels of youth unemployment, potentially up to €52 million, although this has not yet been confirmed.

European Maritime Fisheries Fund Fisheries

Negotiations continue on the new **European Maritime Fisheries Fund Fisheries** to enable delivery of the new programme to replace EFF in 2014. A General Approach on EMFF was agreed by Fisheries Ministers at the July Council, which now enables triologue negotiations between Council, Parliament and Commission to start later this year. The EMFF programme will provide a wider package of support for the marine environment than under the current programme, and it encourages diversification and connectivity between marine sectors. It also pulls all marine funding under one source, adding assistance for data collection compliance costs and wider integrated maritime planning. The Commission has yet to

confirm the funding available at Member State level – we expect the UK allocation to be known in December and have begun discussions with the UK Government on the basis of the disaggregation of the UK allocation to the four countries of the UK. Scotland presently receives 40% of the UK allocation for EFF. Scottish Ministers have made clear their belief that this does not reflect the proportion of activity that is undertaken in Scotland, and that the Scottish allocation should be increased. The EFF programme (subject to currency variations) is worth about £90m to Scotland - £50m European funding supported by £40m domestic funding.

Common Agricultural Policy

Although political agreement on the MFF was reached on 27 June in Brussels, there are a number of **CAP**-related elements which are not yet finalised e.g. inter-Pillar transfers, the scope of cuts to large direct payments (degressivity) and capping. The EP is said to be unhappy that its powers of co-legislating with the Council on CAP (under Lisbon) is not being allowed to be fully exercised. Meetings are expected to take place over the coming weeks but Council will resist reopening CAP related elements.

Meanwhile, we know the UK CAP budget allocations for Pillar 1 and Pillar 2. The UK Pillar 1 budget will be €3.549 billion in 2014, rising to €3.592 billion in 2019. This includes a convergence uplift. We have been told unofficially that the UK Pillar 2 budget for 2014 – 2020 will be €2.293 billion. Talks on how these should be divided between the four countries of the UK are at an advanced stage. Mr Lochhead is calling for the full Pillar 1 convergence uplift (over €60 million per year by 2019) to come to Scotland, where it was earned, and for our Pillar 2 allocation to be based on objective criteria and not simply historic receipts.

*Kind regards
Fiona*

FIONA HYSLOP

Annex A

Background on the key individual competitive funds

Horizon 2020

Horizon 2020 Preparations

Horizon 2020 is the financial instrument implementing the Innovation Union 2, a Europe 2020 flagship initiative aimed at securing Europe's global competitiveness. Running from 2014 to 2020, the EU's new programme for research and innovation is part of the drive to create new growth and jobs in Europe. The Scottish EU Research and Innovation Steering Group has developed a Horizon 2020 Scottish Support Framework. The remit of the Steering Group is to provide strategic direction and facilitate effective coordination of Scotland's preparations for Horizon 2020. Between March and July 2013, over 400 attendees participated in a series of Horizon 2020 Awareness Sessions (held in Inverness, Aberdeen, Dundee, Edinburgh, Glasgow and Dumfries).

As more information on the detail of Horizon 2020 is emerging, a further programme of pan-Scottish engagement sessions has been developed. This will incorporate:

- An additional General Awareness Session which will set out the latest developments within the Horizon 2020 Research and Innovation Programme.
- Seven Sectoral sessions to build capacity of targeted sectors to participate in Horizon 2020 (through the provision of tailored information) and provide a platform for attendees to discuss projects and develop consortia. Sectors are: Green Energy, Blue Growth, Chemical Sciences, Construction, Transport, Life Sciences, Food Security & Environment.

SME Engagement Vouchers

The Scottish Funding Council (SFC) is developing a new proposition aimed at increasing SME engagement in Horizon 2020.

A voucher scheme, similar to the existing Innovation Voucher, is currently under development and will enable SMEs to draw on the experience of Scottish universities in applying for and participating in EU research programmes.

A voucher of up to £5000 will be used to support a range of activities including travel for HEI/SME team; consortia building; SME engagement with EU officials; and support for proposal writing. It will not be used for consultancy fees or academic-only applications.

Funding for first wave of vouchers has been agreed and the scheme, due to commence in September, will be delivered through Interface.

Knowledge Innovation Communities

The Steering Group is also considering how best to support Scottish participation in Knowledge and Innovation Communities (KICs).

A programme of the European Institute of Innovation and Technology, KICs are integrated, creative and excellence-driven partnerships bringing together the fields of education, technology, research, business and entrepreneurship, in order to produce new innovations and new innovation models.

There are currently three KICs; in Climate Change, ICT and Sustainable Energy. The next round of KICs is due to commence in 2014 and calls for proposals are expected towards the end of this year.

Edinburgh University, along with NHS24, is building a proposal for the Healthy Active Ageing KIC. Scottish Enterprise has committed resources to support this proposal and the Steering Group will work with these organisations, as well as with other potential participants that may emerge, as the KIC programme becomes more developed.

Erasmus promoting student exchanges and mobility

Current funding programmes run by the European Commission in the area of education, training, youth and sport, such as the Lifelong Learning Programme, Youth in Action and other international programmes cease at the end of 2013 and a new programme entitled Erasmus for All (Erasmus+) will replace these from 2014.

Erasmus+ is intended to support activities in education, training, youth and sport, in all sectors of lifelong learning (Higher Education, Further Education, adult education, vocational training, schools, youth activities etc) and the new structure aims to address the need for greater simplification and streamlining.

The programme has been agreed by the European Council but EU parliamentary approval and formal ratification are still awaited (expected October 2013). The EU-wide budget for Erasmus+ is currently set at around €16 billion but this too is still to be formally agreed, as has the UK's share of this figure.

The Department for Business, Innovation and Skills - the lead department for this programme – are currently in the process of appointing a new National Agency which will manage and coordinate all Erasmus+ objectives and actions. The Scottish Government and various external stakeholders are working very closely with BIS to ensure that Scotland's education system is given appropriate consideration and proportionate funding.

Connecting Europe, promoting connections in Energy, Transport and Digital

Connecting Europe was designed as a more innovative way of using EU resources – targeting investment, alongside private sector funding, in transport, energy and digital networks across the EU. A budget of €50 billion had originally been assigned but following EU budget negotiations and took a 40% cut, including the digital allocation which was reduced from €9.2 billion to €1 billion. As a result, the Commission has indicated that the digital part of the CEF would need to be refocused around services (e-procurement, eGovernment, ehealth etc) and would no longer support infrastructure roll-out.

As well as our priority areas, we are reviewing the potential for supporting digital and other projects with funds such as Connecting Europe

LIFE promoting environmental action:

The LIFE programme is the EU's only dedicated financial instrument to support action on the environment and climate change, and will be worth €3.05 billion over the 2014-20 budget period of the next EU multiannual financial framework. For the first time, a dedicated portion of the fund (€800m) will be allocated to fund climate action projects. The overall objective of the LIFE programme is to contribute to the implementation, updating and development of EU environmental policy and legislation by co-financing pilot or demonstration projects with European added value. It focuses on mainstreaming, improved knowledge and better governance and funding is allocated from the European Commission on a competitive basis, through a series of annual funding calls from Brussels.

The new LIFE programme will be structured around two sub-programmes:

- the Environment sub-programme focuses on three priorities (Environment & Resource Efficiency; Nature & Biodiversity; Environmental Governance & Information)
- the Climate Action sub-programme focuses on three priorities (Climate Mitigation; Climate Adaptation; Climate Governance & Information)

The programme will also encourage delivery of a new type of project (aimed at improving the implementation of policy) by focusing on plans and strategies on a larger territorial scale (including cross-border) and across sectors. These projects (known as "Integrated Projects") will mobilise other EU, national and private funds and will focus primarily on the nature, water, waste, air, and climate change mitigation and adaptation sectors. "Traditional" projects will still account for the larger part of the total budget.

Scotland has made good use of the LIFE programme to date (a summary was previously provided to the EERC). In synchrony with the consolidation of the new programme, officials have begun working in partnership with key agencies (notably SNH, SEPA and Scotland Europa) to begin to identify areas which might benefit from integrated projects and which might be pursued within the programming period. However, it would be premature to conclusively address considerations such as the sourcing of match-funding and how UK co-ordination might operate at this stage.

• **Cross Border and Transnational InterReg programmes**

Scotland has access to most of the European Territorial Co-operation (previously known as INTERREG IVB) funding initiatives, such as the North Sea Programme, North West Europe, Atlantic Area and Northern Periphery Programme. A key focus for Scottish Ministers will be to promote engagement in joint projects with the Nordic and Baltic countries focusing on key priorities such as policy exchange and economic and social development in areas such as cities and remote rural areas. On the latter, Highlands and Islands Enterprise is the Scottish contact point for the Northern Periphery Programme (to be called the Northern Periphery and Arctic Programme 2014-2020).

There are opportunities to develop collaborative programmes using funding from the EU INTERREG cross-border programme for Scotland/Northern Ireland/ Republic of Ireland which has already delivered significant benefit for the energy sector through projects such as ISLES. Building on the experience of ISLES and other projects, Scottish partners have already been approached by the managing agency for this programme (SEUPB) to help them deliver more 'strategic' projects from the programme in the 2014-2020 period.