Review of the Balance of Competences

EU Spend Workshop: Thursday 7 November 2013
Note of meeting and evidence for the Agriculture, Cohesion and EU Budget Reports

Attendees

Professor John Bachtler, Strathclyde University (Chair)
Business for Britain
Cabinet Office
Convention of Scottish Local Authorities
Department for Business Innovation and Skills
Department for Communities and Local Government
Department for Environment Food and Rural Affairs
European Commission
HM Treasury
Institute for European Environmental Policy
National Farmers Union
National Council of Voluntary Organisations
Open Europe
Research Councils UK
Royal Society for the Protection of Birds

- Cabinet Office, HM Treasury, Defra and BIS provided an overview of the Balance of Competences process and the Budget, Agriculture and Cohesion Reports. Attendees discussed two broad areas around EU spending:

  I. *Value for money* of EU spending – including consideration of:
     - whether the level of spend is right
     - whether the value of spend is cost effective and/or efficient

  II. *Financial management* of EU funding

- The following points were made in discussion held under the Chatham House Rule:

Value for Money

Do all areas of EU spend provide value for money?

- The added value of EU spending was questioned: for example within the Cohesion budget UK regions (other than Cornwall and West Wales) pay for their own receipts, and there is potentially an administration cost saving if the funding were delivered at MS level.
- By contrast, research and innovation funding has been highly advantageous to the UK under Framework Programme 7. Percentage-wise the UK receives more than it contributes. It also benefits in other ways e.g. contacts, networks and increased knowledge base. A European-wide R&D programme can also help with some of the

burdens associated with the agency administration of complex and multi-national partner projects.

- Structural funds that local authorities access were seen as helpful against the current economic backdrop. The predictability of the seven year framework is beneficial in working towards 2020 goals.
- It was thought that structural and Investment funds could be used to a greater degree for infrastructure spending.
- Beneficiaries face some challenges when structural funds become 'locked away' in large contracts e.g. Work programme, families with complex needs. Also match funding with European Social Fund is incompatible with payment by results. It ends up that lots of money goes to big companies.
- Greater added value from EU Cohesion spend would result from investment in modernisation for economic development in newer MS. If EU funding were limited to less developed regions then perhaps €4bn could remain in the UK. HMT could in theory choose to guarantee that these funds would be spent on regional development.
- From the perspective of at least some regions, regional spend was a 'guarantee of regional development' which in practice was were unlikely to be made by national governments.
- There were potential benefits to UK companies through contracts to deliver EU-funded activities in other member states. Furthermore, the UK not only directly benefits from the money it receives from the EU but also indirectly through the money that is spent in other Member States.
- There were also benefits to trade and investment; and a possible benefit in slowing migration.
- With regards to the Common Agricultural Policy, while some stakeholders question the value for money of Pillar 1 payments, others see it as delivering public goods e.g. supporting farmers' incomes and food production, and contributing to activity in rural economies. Direct payments also contribute to a level playing field for EU farmers.
- The CAP budget overall has reduced from 43% of total EU budget to 36%. It was argued that the introduction of "greening" of direct payments does provide additional justification for use of public money, particularly in MSs where agri environment schemes do not work as well as they do in the UK.
- However, in addition to the monetary cost of the CAP there is an opportunity cost to the economy because the CAP fails to incentivise farm modernisation.
- There is also an environmental opportunity cost: if CAP funding was not spent on direct payments it could be linked to biodiversity-rich areas.
- The question was raised whether the administration of EU spend yielded economies of scale. It was doubted whether the EU should have a budget to account for its admin expenditure (albeit admin only accounts for 0.06% of EU budget). The added value

provided by the EU Space Programme was doubted. However additional spending was needed on research and innovation.

Are different approaches required for different funds and different geographies?

- The LEADER approach was thought to be effective in promoting cross-sectoral partnership approaches - which are effective and work well in UK but less so in other MSs. But there are questions about the value for money of some projects funded through LEADER.
- There is value in there being an EU-level budget which delivers EU-level objectives. For instance biodiversity has cross-cutting targets for the year 2020 and so needs cross-cutting funding through e.g. the LIFE mechanism, which is small, targeted and efficient. It is an example of how size isn't relative to the impact of funding.
- Agri environment schemes cut across seven year budget period, and are structured around 5 or 10 year agreements. There are significant costs and burdens for farmers to make agri environment scheme agreements meaning the longer term funding arrangements are needed.
- Domestic budgets would not be able to deliver such long term guarantees. There is a strong sense of partnership across European NGOs working towards the same goals and it is therefore efficient that relevant funding exists at the EU level and it provides a base from which expertise can be pooled. National policies would not be able to deliver such cross-cutting targets.
- The majority of Cohesion policy spend however was delivered through national or regional level programmes.
- Some supporters of cohesion policy have argued that it is becoming a 'delivery agent' for sectoral policy.
- However it was argued that there was a risk of cohesion policy having two objectives – economic convergence and investment in growth sectors – which did not fit together well. There was a case for disaggregating these – but also concerns about resultant increased administrative costs.
- The objectives of a domestic cohesion policy would look very different to the European level picture.
- Voluntary and academic sectors would welcome simplified, streamlined approaches to schemes. Some organisations are put off applying for cohesion funds because of the risks of getting things wrong and being pulled up during audit exercises and also due to a lack of flexibility on committed spend.

<u>Financial Management</u>

How effective is accountability and financial management of funding from the EU?

- Participants suggested the seven year MFF cycle makes it easier to tackle long-term strategic objectives such as poverty and climate change.

- The 5-7yr cycle also provides a safety net against the impact of political changes in Member States e.g. UK domestic regional policy has come under pressure but EU funding remains guaranteed.
- There were significant costs in administering CAP direct payments and rural development payments in the 2007-2013 period. Scheme complexity led to significant disallowance.
- It was felt that there would still be an administrative burden on farmers if domestic funding were to replace CAP direct payments.
- It was reported that organisations avoid applying for structural funds because of the cost of the administration involved. There is also a cost associated with the length of time it takes farmers to access funds. The UK and EU are both at fault and the process ought to be simplified.
- There is often a conflict between different funding streams. Administration costs rise when there are several funds with similar objectives.
- Member states typically have robust audit and financial management systems in place – the question was asked why does EU send personnel to carry out centralised audits etc?
- Prospects for EU enlargement were significant as likely to lead to pressure for larger budgets and more complex administration.

What further steps might be taken to provide increased assurance for EU taxpayers?

- Participants wanted to see more transparency and accountability for spend.
- There was thought to be scope for more funding to be provided through loans rather than grants. This would require much better business cases to be developed and more conditionality could be attached to funding.
- There were calls for greater flexibility to enable Member States to be able to react to the wider economic cycle. For example during the recent financial crisis there was no scope for MS to be able to reorientate funds. Member states were making cuts domestically however there was no scope to adjust European contributions and/or committed spend. As states moved through the fiscal cycle, there was no flexibility to spend the money on different (and much needed) areas.
- A reduction in the current seven year budget period to a five year period would allow for easier adjustment to economic cycle. The mid year review (MYR) is a good idea, as long as it does not disintegrate into an exercise to increase spending, and is used to take a proper look at the distribution of spending.
- Delegates recognised a tension between pressures to spend funds with greater regularity and pressure to spend money quickly, raising the question of whether this tension leads to more errors**.**
- There was discussion of fraud and error in the EU budget and agreement that some MSs had more robust systems than others. Furthermore that most issues involved error but not fraud. There had been reform to the EU civil service and cuts were expected.

- One way of simplifying the process would be through block grants without the requirement to specify individual budget lines.

BIS, Defra, HMT

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