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SPICe Briefing

European Union Funding in Scotland 2014-2020

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This briefing, requested by the European and External Relations Committee provides details of the European funding for Scotland during the 2014-2020 programming period.

The Scottish Parliament
Pàrlamaid na h-Alba

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EXECUTIVE SUMMARY

This briefing provides a picture of the EU funding Scotland is scheduled to receive over the next few years, how it will be spent, and by whom.

Between 2014 and 2020, the European Union is expected to distribute up to €960 billion of funding. Prior to the Brexit vote Scotland expected to receive €5.6 billion over the seven year programme period, the largest portion of this being payments to farmers through the CAP Pillar 1 programme. €941 million was also allocated towards support for economic development in Scotland through the structural funds, whilst €478m was allocated towards CAP Pillar 2 (rural development) and €108m to the EMFF (fisheries) fund.

EU funds are proportionately more important to Scotland than the rest of the UK. Scotland was set to receive 14% of the UK's funding between 2014 and 2020, compared to its population share (in 2015) of 8.3%.

The UK Treasury has made a number of guarantees to enable the continuation of funding in Scotland whilst the UK remains a member of the EU, and in the case of CAP Pillar 1, guarantees that will run until the end of 2020.

For the structural funds there are significant sums which have still to be committed. Some £350m has now been committed and a further £450m remains uncommitted, and requires match funding from the Scottish public sector. One challenge for the Scottish Government is to ensure the structural funds are match-funded and legally committed before the UK leaves the EU.

The structural funds feed into a complex landscape of support for economic development. EU funding supports a range of public bodies such as Scottish Enterprise and Highlands and Islands Enterprise, local government and some of the work of the Scottish Government itself. Activities funded include skills and training, support to business and the development of infrastructure.

Around €63m of Scotland's allocation of EMFF (fisheries) is discretionary and available for eligible projects. Of this, just over £10.8 million has been committed, leaving around £42.6 million eligible for further project awards.

Scotland also receives funding from the so called competitive funds. These are (usually trans-national) funds that Scottish organisations can bid into, and a list is provided in the annex to this briefing. One prominent example is the €76 billion Horizon 2020 programme, the EU's main programme to support research and innovation. By July 2016, Scottish organisations were participating in projects worth around €250 million. Nearly three quarters of this (€184m) had been secured by Scottish universities.

Assuming the United Kingdom leaves the European Union before the end of 2020, it will not participate in future CAP and structural funding programmes. This will mean that, once the United Kingdom has left the EU, the provision of future financial support for organisations and projects which previously received EU funding will be a decision for the UK and Scottish Governments.

WHAT IS EU FUNDING AND WHAT IS IT USED FOR?

The European Union funds Member States through its Multi-annual Financial Framework (MFF). The current MFF runs from 2014 to 2020 and involves a maximum spend across Europe of €960 billion (or £812 billion, at September 2016 exchange rates). The MFF is now a fairly complex piece of financial machinery, developed over a number of years, to try and take account of different needs of Members of the EU.

The MFF is **funded** by Member States using three calculations:

- Traditional Own Resources (based on a customs tariff)
- VAT based calculation
- Gross National Income based calculation

For some Member States (including the UK) there then follows a Financial Correction Mechanism (sometimes referred to as the rebate).

The MFF **allocates funding** to a number of different expenditure headings and sub-headings. In the 2014-20 framework, over 80% of funding goes to:

- Competitiveness for growth and jobs
- Economic, social and territorial cohesion
- CAP; market related expenditure and direct payments (known as Pillar 1)
- CAP: rural development (known as Pillar 2)

It is also worth noting that there are two broad types of funding:

- **Pre-allocated funds** – the formula for allocating these funds to the Member States (including the big programmes such as CAP and the Structural funds) is agreed at the outset of the MFF
- **Competitive funds** - Scottish projects, or projects involving Scottish stakeholders need to bid for funding against other projects across the European Union. There is no pre-allocated share for Member States. There are many competitive programmes open to Scottish partners. Examples include Horizon 2020 (which supports research and innovation) or Erasmus+ (which supports education, training youth and sport). Further details on competitive funds are provided later in this briefing.

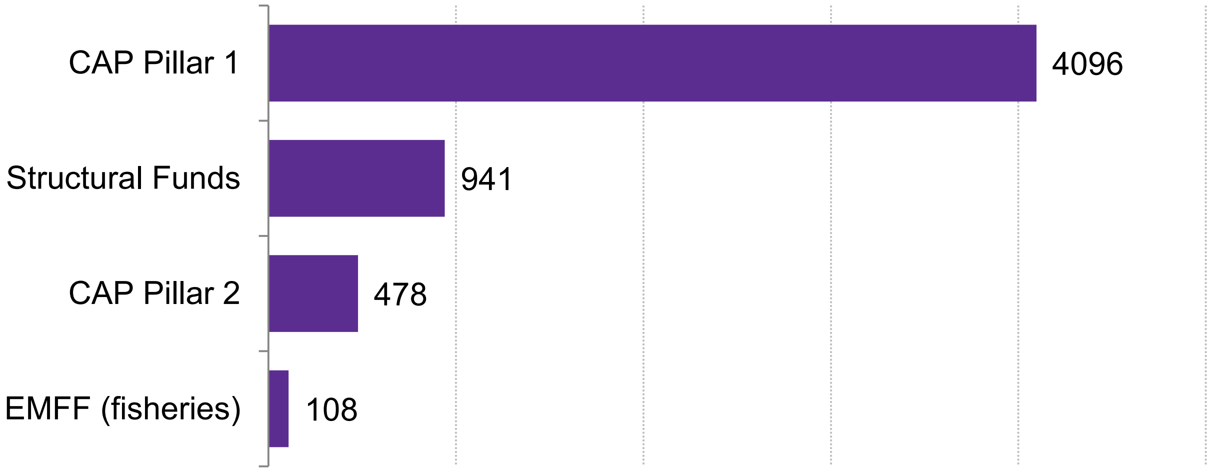
Pre-allocated European funds come with a requirement to match fund the grant provided, the major exception being the CAP Pillar 1 programme.

Further detail on how the EU is funded and how it spends its money is contained in the SPICe briefing on the Multi-annual Financial Framework (McIver 2016).

HOW MUCH EU FUNDING DOES SCOTLAND RECEIVE?

Figure 1 below sets out the major areas of pre-allocated European funding that prior to the Brexit vote Scotland was expecting to receive between 2014 and 2020:

Figure 1 – Pre-allocated European Funding expected for Scotland 2014-20 (€m)



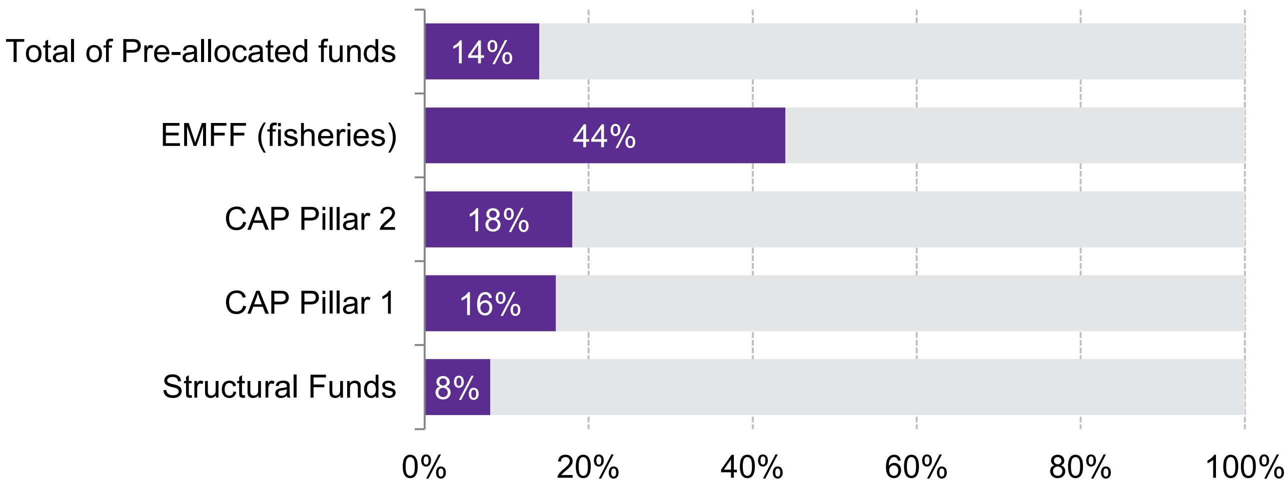
(Sources: Scottish Government 2016, UK Government 2016, UK Government 2014, UK Government 2013)

In total over the seven years of the programme Scotland expected to receive just over €5.6 billion from the four pre-allocated funds, with the CAP Pillar 1 payments accounting for the largest proportion of this total.

It is not possible to provide a figure for the Competitive funds as they are distributed through a number of competitive funding rounds which take place throughout the seven year programming period.

Figure 2 shows how much funding Scotland expected to receive as a percentage of the UK receipts. Scotland expected to receive 8% of the UK's structural funds, and nearly half of the EMFF (fisheries) funds.

Figure 2 – Scotland's share of the UK 2014-20 funding



(Source: Office for National Statistics (2015)

WHAT SCOTLAND CONTRIBUTES

As indicated above, as a member of the EU the UK contributes to the EU budget (and receives funding via a number of programmes). The Scottish Government does not contribute directly to the EU budget. However, it is possible, on the same basis as the calculation of the UK contribution, to provide a notional figure for Scotland's contribution. This calculation has been carried out by the Scottish Government in their most recent publication of GERS: Government Expenditure and Revenue Scotland 2015-16 (Scottish Government 2016a, p33-36).

The Scottish Government's calculation for 2015-16 is summarised in Table 1 below

Table 1: Scotland's net contribution to the EU

	2015-16 (£m)
Gross contribution to the EU budget (including North Sea in GDP estimates)	1,138
Public sector EU receipts	-610
Net contributions to EU budget (including North Sea)	528

In each of the four years from 2012-13 to 2015-16 Scotland is assessed as having made a net contribution of over £0.5 billion, with a net contribution of £528 million in 2015-16. It should be noted that the above figures only take account of public sector transactions. Higher education institutions are classified as private sector, not for profit bodies and so not included. The Scottish Government notes that higher education bodies are significant recipients of EU funding (for example receiving £94.1m in EU payments in 2014-15).

WHAT WILL HAPPEN DURING THE CURRENT FUNDING PROGRAMMES UP UNTIL 2020?

The UK government guarantee

Initially, the UK government provided limited assurances about continuity of EU funding. The Chief Secretary to the Treasury, David Gauke MP, wrote to David Davis MP, Secretary of State for Exiting the European Union, on 12 August 2016 stating:

> "all multi-year projects administered by government with signed contracts or funding agreements in place, and projects to be signed in the ordinary course of business before the Autumn Statement, will be fully funded, even when these projects continue beyond the UK's departure from the EU" (UK Government 2016a)

The Treasury will "put in place arrangements" for those projects signed after the Autumn statement which will take place on November 23.

In relation to Competitive funds, Mr Gauke, stated "while we remain a member of the EU":

> "The Treasury will underwrite the payment of such awards, even when specific projects continue beyond the UK's departure from the EU"

The Treasury went further in relation to CAP Pillar 1 payments stating:

> "The Treasury will therefore reassure the agricultural sector that it will receive the same level of funding that it would have received under Pillar 1 of CAP until end of the Multiannual Financial Framework in 2020…"

Subsequently, on 4 October 2016, the UK Government provided "further certainty" for EU funded projects. The Chancellor of the Exchequer, Phillip Hammond, announced that the government will guarantee EU funding for structural and investment fund projects, including agri-environment schemes, signed up to the point at which the UK departs the EU and which continue after we have left the EU. The UK Government's announcement also provided certainty for EU funding managed by the Devolved Administrations:

> "Where the devolved administrations sign up to structural and investment fund projects under their current EU budget allocation prior to Brexit, the government will ensure they are funded to meet these commitments." (UK Government 2016b)

The Chancellor's guarantee appears to mean that spend for all pre-allocated EU funds is guaranteed if committed before the UK leaves the EU. The details of how this would work in practice are perhaps less clear in a number of instances:

- **Funding after leaving the EU** - EU funding operates on the basis of projects being able to spend a number of years after funding has been allocated (known as the N+2 or, more usually, the N+3 rule where N is the start year when the money is allocated plus the number of years in which the money must be spent). Further to this, some multi-annual commitments are likely to run beyond N+3. In this case, it could be assumed that the Treasury guarantee means the UK Government is potentially guaranteeing EU levels of spending for two or three years, or even more, after the UK has left the EU
- **Funds committed on an annual basis** - one example of this is the Less Favoured Areas Scheme which forms part of the Scottish Rural Development Programme. It is not clear whether funding which is only committed a year ahead of its payment would continue to be paid once the UK has left the EU

- **How the UK government will ensure commitments are funded** – it is not yet clear what mechanism the UK government will use to demonstrate the guarantee is delivered, and how this will operate alongside the existing fiscal framework for the Scottish Government.

On 2 November, the Scottish Government announced that it would be "passing on, in full, the EU funding guarantees that have been offered by the UK Government, providing certainty for over £700 million of EU funding for Scotland". (Scottish Government 2016c)

What this means for Scottish funding

The largest part of Scotland's pre-allocated EU funds come from **CAP Pillar 1** which is worth about €3.7 billion after the transfer of 9.5% of the Pillar 1 budget to the Pillar 2 budget. CAP Pillar 1 is allocated between the Basic Payment Scheme (including greening and young farmer payments), the Scottish Suckler Beef Support Scheme (Mainland and Island) and the Scottish Upland Sheep Support Scheme. The Basic Payment Scheme including the Greening payment is the main one of these, taking up 90% of the budget.

The UK Government's initial guarantee covered all CAP Pillar 1 payments until the end of 2020.

The updated Treasury guarantee now means that one of the Scottish Government's challenges will be to maximise the drawdown of the EU funding ahead of the UK leaving the EU. To do this it needs to commit as much of the pre-allocated European funds as possible whilst complying with the EU's spending and programme specific regulations before the UK leaves the EU. To successfully commit EU funding also requires match funding (often on a fifty-fifty basis). The match funding will come from the Scottish public sector.

- Some €941m is allocated to Scotland's **structural funds**. Nearly €530m (approximately £450m) of this is still to be committed

- The **Scottish Rural Development Programme** delivers Pillar 2 of CAP – The original allocation for Pillar 2 in Scotland was €478 million with a further €367 million transferred from Pillar 1 meaning European funding contributes €845 million to the Scottish Rural Development Programme.

- The **European Maritime Fisheries Fund** is the smallest of the funds worth a total of €108 million between 2014-2020. Of this €108m, around €63m is discretionary and available for eligible projects. A further €44m is available for CFP related activities. €13m of the discretionary element has been committed, leaving a further €50m to be committed.

After the UK leaves the EU

Assuming the United Kingdom leaves the European Union before the end of 2020, it will not participate in future CAP and structural funding programmes. This will mean that, once the United Kingdom has left the EU, the provision of future financial support for organisations and projects which previously received EU funding will be a decision for the UK and Scottish Governments. There may also be implications for the fiscal framework between the UK and Scotland, given that this includes the process for the allocation of funding to Scotland.

Following the UK's departure from the EU, UK participation in competitive EU funding programmes will depend on the negotiated future relationship between the UK and the EU. Non-EU members are able to participate in EU funding programmes, for instance, Norway participates in some EU funding programmes such as Horizon 2020.

A CLOSER LOOK AT THE KEY PROGRAMMES

THE COMMON AGRICULTURAL POLICY

The Common Agricultural Policy aims to ensure a decent standard of living for farmers and to provide consumers with a stable and safe food supply at affordable prices. The "1st pillar" of the Common Agricultural Policy (CAP) corresponds to support to farmers' incomes provided in the form of direct payments and market-support measures.

Pillar 1 of the CAP is worth €312 billion across the European Union (European Commission 2013)

The 2nd pillar aims to provide help to improve competitiveness for farming and forestry, protect the environment and the countryside, improve the quality of life and diversification of the rural economy and support locally based approaches to rural development.

Pillar 2 of the CAP is worth €95 billion across the European Union (European Commission 2013)

CAP funds are allocated to Member States and are then distributed across the Member State. Between 2007 and 2013, Scotland benefited from around €4.5 billion of Common Agricultural Policy (CAP) funding. Between 2014 and 2020, Scotland is likely to benefit from around €4.5 billion (UK Government 2013)

The CAP in Scotland

The Infographic ("Exhibit 2") produced by Audit Scotland (2016) shows how CAP funds are allocated within Scotland.

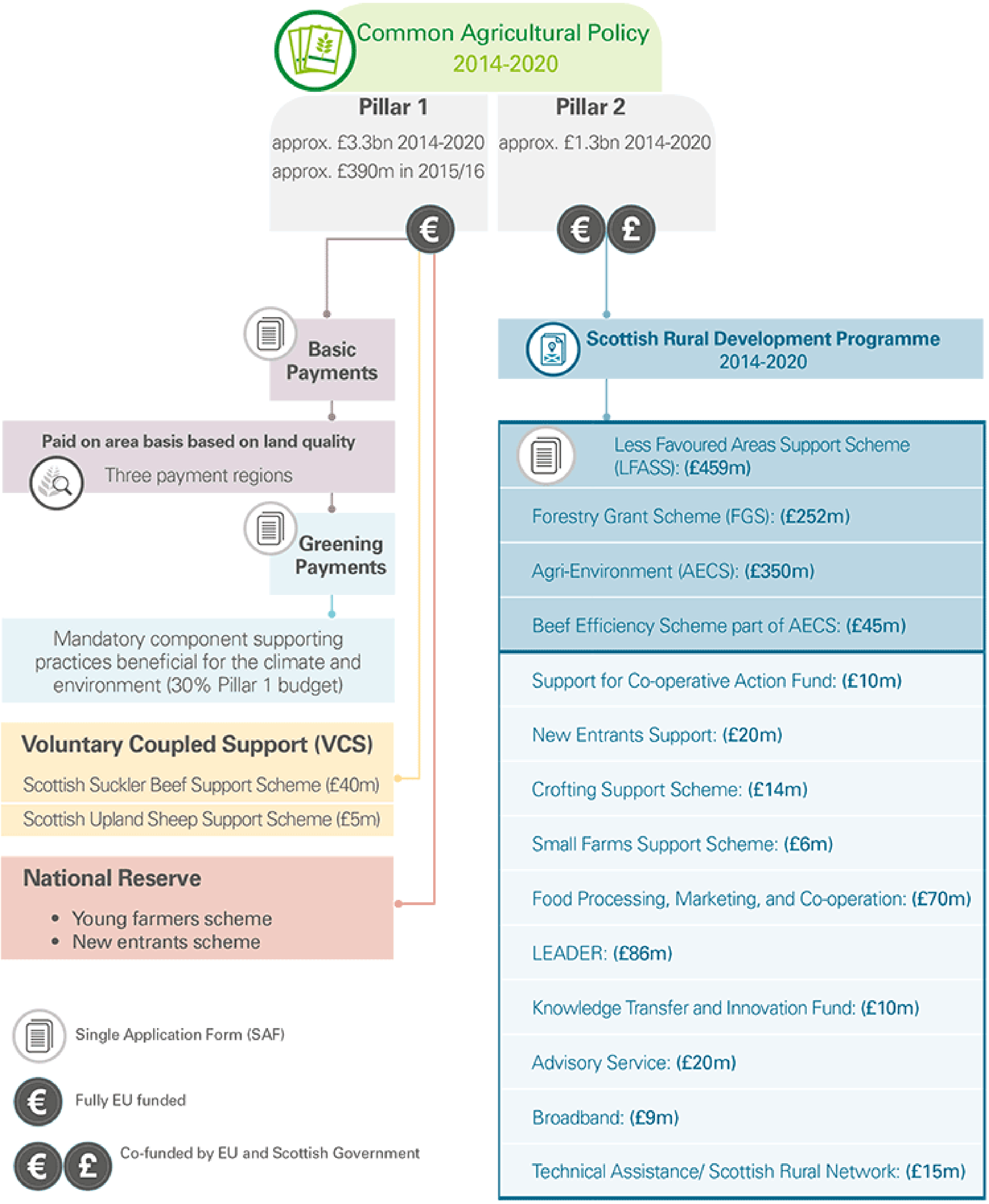
Scotland initially received a Pillar 1 (direct payment) allocation of around €4,096 million, and a Pillar 2 allocation of around €478 million. As referenced earlier in the briefing, ahead of the start of the programmes, the Scottish Government chose to transfer 9.5% of the Pillar 1 budget to the Pillar 2 budget as permitted by the EU regulations. In financial year 2014, pillar to pillar transfers were slightly lower as they were determined under the old regulations. Over financial years 2014-2020, €367 million was transferred from Pillar 1 to Pillar 2 leaving the Pillar 1 budget as €3,729 million.

Pillar 1 Direct payments are made to eligible farming businesses in Scotland based on the rules set out in the EU regulations governing those payments. Pillar 1 payments are covered in their entirety by the UK Government's guarantee.

CAP Pillar 2 funding in Scotland supports the Scottish Rural Development Programme (SRDP) which is worth around £1.3 billion between 2014-2020. Of this, 50% comes from Scottish Government funds and 50% is EU funding in the form of the Scottish Government's CAP Pillar 2 allocation (after pillar to pillar transfers). This budget will be divided between 14 support schemes and packages[1]. Details of the schemes are set out in *Exhibit 2* below.

[1] More details of each scheme are also available on the Rural Payments website: https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/ . The budget allocations for each scheme are notional and unspent funds can be reallocated between schemes.

Exhibit 2
The Common Agricultural Policy in Scotland
The Scottish Government distributes European Union CAP funding under two pillars.



Source: Audit Scotland

Two of the support schemes under the SRDP are discussed in more detail below.

Less Favoured Areas Support Scheme

The Less Favoured Area Support Scheme (LFASS) provides income support to farming businesses in areas designated as Less Favoured Area (LFA). A budget of around £65.5 million per year is available as part of the Scottish Rural Development Programme. 86% of farming land in Scotland is LFA. Funding is used to allow farmers and crofters to continue to operate as viable businesses, avoid the risk of land abandonment, help maintain the countryside by ensuring continued agricultural land use, and maintain and promote sustainable farming systems. The current scheme will continue until 2018.

By 2018, LFASS is due to be replaced by a new scheme called Areas Facing Natural Constraint (ANC) as required by the European Commission.

As the LFASS/ANC is committed annually, it is not clear how payments to be made once the UK leaves the EU will be covered by the UK Government Treasury Guarantee. For example, it is not yet clear what will happen to funding profiled for 2019 and 2020 if the UK has left the EU before the funding has been formally committed.

LEADER

Another SRDP funding stream is LEADER which is worth around £86 million over the 2014-2020 funding period. LEADER is made up of 50% CAP Pillar 2 funding and 50% Scottish Government co-financing. According to the Scottish Rural Network (2016) which manages the LEADER programme:

> "The aim of LEADER is to increase support to local rural community and business networks to build knowledge and skills, and encourage innovation and cooperation in order to tackle local development objectives."

The Scottish Government (2016d) has provided the indicative allocations to each of the 21 Local Action Groups which are responsible for awarding LEADER funding to projects. The indicative allocations are shown in Table 2 below.

Table 2 LEADER funding allocations (£s)

Local Action Group	Total LEADER Funding
Aberdeenshire North	£3,290,237
Aberdeenshire South	£2,831,742
Angus	£2,750,186
Argyll and Islands	£4,886,126
Ayrshire	£5,783,731
Cairngorms	£2,968,517
Dumfries and Galloway	£5,595,370
Fife	£3,397,670
Forth Valley and Lomond	£2,783,013
Greater Renfrewshire and Inverclyde	£2,324,196
Highland	£8,805,388
Kelvin Valley and Falkirk	£2,824,399
Moray	£3,453,040
Orkney	£2,512,250
Outer Hebrides	£3,177,666
Rural Perth and Kinross	£3,800,124
Scottish Borders	£4,018,427
Shetland	£2,467,085
South Lanarkshire	£4,066,953
Tyne Esk	£3,490,769
West Lothian	£2,173,112

Although the programmes are at an early stage, some Local Action Groups have started awarding funding to projects through funding rounds held over the last 12 months. Funding rounds will continue across all Local Action Groups during the programming period.

Some examples of projects funded under the 2014-2020 LEADER fund are provided below:

The Orkney Local Action Group awarded funding to the Burray Community Association to support an upgrade to the Burray Hall which will enable increased use of the hall for groups and events and give the community a more modern and energy efficient facility. The project has also been funded by Orkney Council's Community Development Fund.

In North Aberdeenshire, the Local Action Group awarded £33,000 to the Buchan Development Initiative to help install a new Glamping area in the Aden Caravan and Camping Park. The North Aberdeenshire Local Action Group has provided 50% of the funding for the project which it is hoped will boost tourism in the area.

In Dumfries and Galloway, the Local Action Group awarded the Lifeboat Station at Glencaple near Dumfries just under £42,000 of LEADER funding to support a project to accommodate the increased equipment and crew resource required and to encourage more outreach and education work at the Lifeboat Station

The Cairngorms Trust which manages the Cairngorms LEADER programme awarded Volunteer Cairngorms, a total of £65,619 which will help develop community environmental volunteering in the National Park.

EUROPEAN MARITIME FISHERIES FUNDING

The European Maritime and Fisheries Fund (EMFF) supports the implementation of the Common Fisheries Policy with the necessary financial resources. The EMFF focuses on funding projects which promote a sustainable future for the European fishing industry and coastal communities with particular focus on the rebuilding of fish stocks, reducing the impact of fisheries on the marine environment, and the progressive elimination of wasteful discarding practices.

The Fund is worth €6.4 billion across the European Union between 2014 and 2020.

During the 2007-2013 period, Scotland received around €100 million from the European Fisheries Fund. Between 2014 and 2020 Scotland will receive around 44% of the UK allocation of €243 million, equating to around €108 million.

Around €63m of Scotland's allocation is discretionary and available for eligible projects. A further €44m is available for CFP related activities.

Calculated in Sterling, the EMFF in Scotland has committed just over £10.8 million in funding to projects in Scotland by end of October 2016 (Scottish Government 2016e). This leaves around £42.6 million eligible for further project awards.

Announcing the awards of the first funding round in September 2016, the Scottish Government provided information on some of the projects to receive funding (BBC 2016):

- £5m for Peterhead harbour to go towards deepening the harbour and extending the fish market.
- £1.4m to Marine Scotland to market local seafood
- £623,000 for the Seafish Industry Authority to run safety training courses
- Several awards for mussel farming projects in Shetland
- £472,000 to the University of the Highlands and Islands for a shellfish hatchery programme
- £300,000 to install a high capacity ice plant at Lochinver harbour
- £332,000 for fisheries innovation projects based in St Andrews
- £136,000 to market Scottish seafood in North America

THE STRUCTURAL FUNDS

What are the structural funds and what are they expected to achieve?

The Structural Funds are intended to promote smart, sustainable and inclusive growth, increasing economic activity and employment across the EU.

The Structural Funds are composed of two similar sized funds: the European Regional Development Fund (ERDF) and the European Social Fund (ESF). In Scotland, funding is split between two Programme areas: Highlands and Islands (accounting for around 20% of total funding), and Lowland and Uplands Scotland (essentially the rest of Scotland).

The 2014 to 2020 programme sets several targets to change the Scottish economy and labour market for the better. For example, these include:

- More than doubling the number of SMEs exporting (from 44,000 to 95,000)
- Increasing employment in Scotland’s low carbon sector by 5% to nearly 82,000
- More than doubling the number of Youth Employment Initiative participants achieving positive outcomes 6 months after leaving, from 6,000 to over 13,000

How decisions on funding are made

The process starts with the EU **regulations** setting out the rules, along with some high level targets. The Commission and the Member States then agree a ‘contract’ (or **partnership agreement**) defining how the money will be spent and the types of activity that can be funded.

A **Scottish Operational Programme** (one for each fund) sets out in detail the level of funding available in Scotland for different types of activity for the whole programme period.

The next stage is to develop **Strategic Interventions** which identify a cohesive set of activities, fronted by a lead partner, and allocate a maximum budget.

Finally, individual **Operations** describe the point when individual projects become legally committed.

Who spends the structural funds?

Structural funds flow into the complex landscape of economic development. It is not a straight forward task to track the ultimate recipients of the funding. However, data is available on the funding provided to Delivery Agents. Delivery Agents are often the organisations taking the lead on behalf of a group of partners. They will usually spend and claim a significant proportion of the structural funds directly, but may also distribute some of the funding to other partners.

As seen in Figure 3 below, a number of different parts of the public sector draw on the structural funds: local authorities, public bodies and the Scottish Government itself (though the final beneficiaries of the funding are either businesses or individuals seeking to improve their skills; or, less frequently, communities or infrastructure projects.)

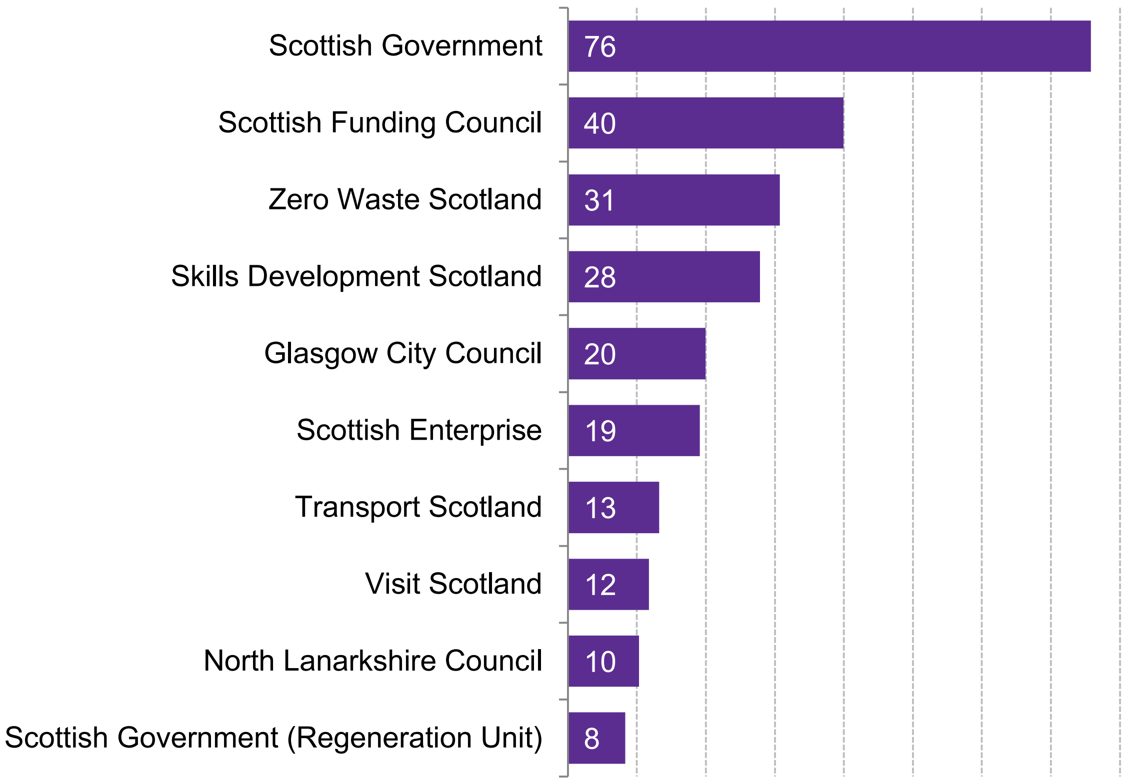
Figure 3: Who is drawing down the structural funds?

(£m of EU funds committed in the 2014-20 programme: as at October 2016)

Figure 4 provides some more detail and identifies the top ten delivery agents (in terms of the value of funds committed to date)

Figure 4: The top ten Delivery Agents for Structural funds

(£m of EU funds committed in the 2014-20 programme, as at October 2016)



Scottish Government funding includes around £40m on the SME Holding Fund (see below), whilst Scottish Funding Council includes £27m committed on the Youth Employment Initiative.

Figures 3 and 4 (above) show the breakdown in funding by lead delivery agent. However, as a closer look at the Smart Cities project (below) illustrates, the funding structures of most projects are usually much more complicated.

Case Study: Smart Cities

Glasgow City Council is acting as Lead Partner on behalf of the seven cities who are part of the Scottish Cities Alliance. Lead Partners need to be a legal entity, and the Alliance is not. However, the Alliance regularly appoints one of its members to act on behalf of all, for example as budget holder.

Glasgow City Council has applied for the Strategic Intervention to develop "Scotland's 8th City", setting out the broad aims of the project (to improve and make city management more cost effective) and the rules for how the Cities will work together to pilot a range of smart cities technology and solutions. Each of the member Cities is then responsible for submitting a stage 2 (operation) application for their specific project. These projects include trialling a new shared and bookable car scheme between health and social services, smart street lighting which responds to daylight and movement, and advanced energy metering and monitoring in social housing.

Glasgow City Council is funded to carry out the compliance work across all the projects and report back to Structural Funds Division centrally on the costs and results of all of the 8th City projects.

What types of project do the structural funds help deliver?

In the current programme the structural funds have delivered projects to support youth employment, business growth and sustainable development. For example:

- **The SME holding fund** is a development of financial instruments in previous EU funded programmes expected to lever in substantial levels of further investment. Different products from the holding fund will provide microcredit finance up to £25,000, loans up to £100,000, and equity investment up to £2 million

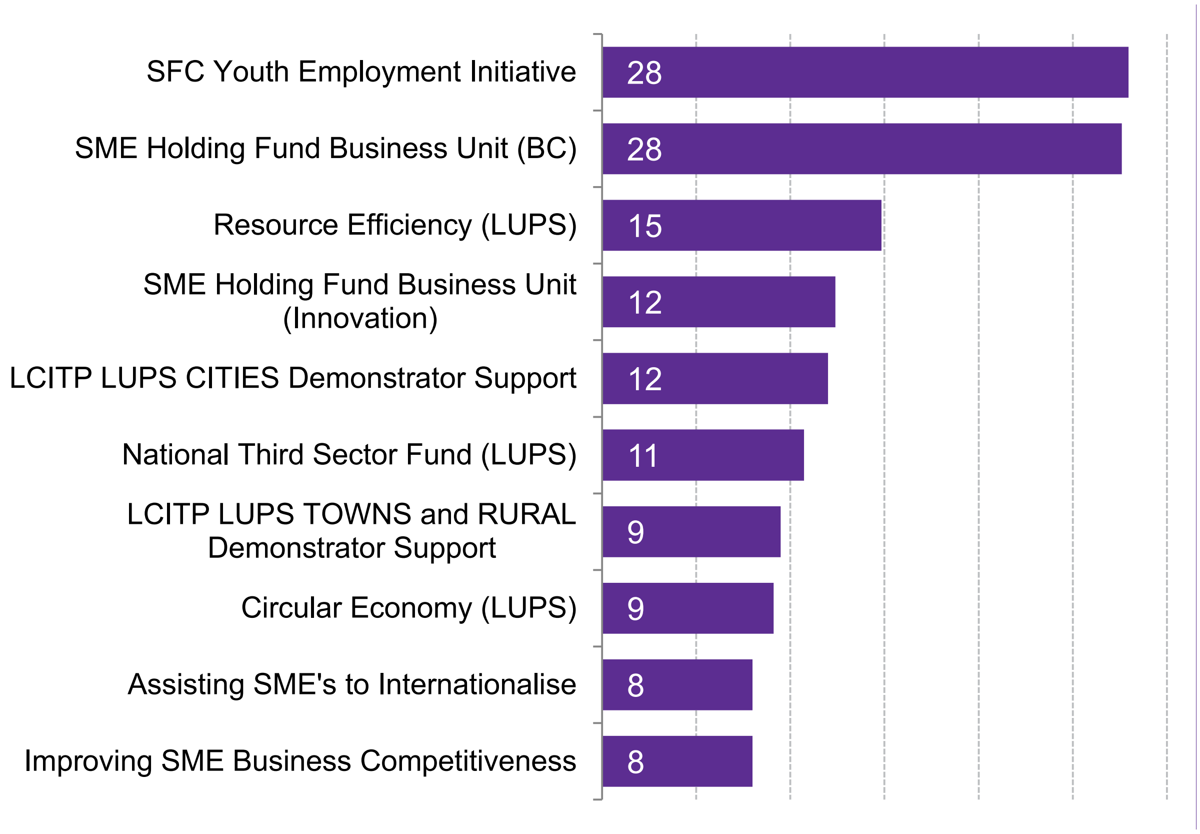
- In 2012, the youth unemployment rate in South West Scotland was over 25%, and the region qualified for the **Youth Employment Initiative**. This is an additional funding source established specifically to deal with crisis levels of youth unemployment across the continent. Support in South West Scotland is available for young people to get into employment (through mentoring, recruitment incentives, work related training) or into formal education leading to a qualification (additional college places)

- In **resource efficiency and circular economy** projects Zero Waste Scotland will work with the most resource "inefficient" industry sectors (food and drink, energy, transport and logistics) to advise on and implement firm-specific improvements. Zero Waste Scotland will also work with companies wishing to explore and implement circular economies, for example product lines made out of waste material, recycling or reuse manufacturing or industrial processes which make use of another company's waste products or heating.

Figure 5 below shows the highest value projects to date.

Figure 5: Scotland's top ten Structural Funds projects

(£m of EU funds committed in the 2014-20 programme, as at October 2016)



Which parts of Scotland benefit the most from structural funds?

It is difficult to identify how much of the Structural Funds can be said to have been spent in, or to benefit, different areas of Scotland. The majority of spending (just over 60%) is being spent on projects where data showing the geographical breakdown is not collected centrally (for example see case study below relating to funding for the Scottish Funding Council).

Case Study: Scottish Funding Council

The European Social Fund supports the delivery of higher level qualifications aligned with the needs of growth industries and sectors in Scotland such as digital, low carbon and marine science. This is delivered via the Scottish Funding Council, which acts as lead partner and funds additional higher-level college places across Scotland. The sectors and qualifications vary by region according to regional skills plans, and reflect local economies; and local colleges are responsible for the recruitment and training of young people in relevant subjects.

In this case the SFC reports on and claims funding centrally from Scottish Government Structural Funds Division, before allocating it out further. This funding is an example of one allocated nationally, and only with further analysis would it be possible to identify the geographical distribution.

How much funding has been committed so far?

Figure 6: Structural funds committed by year (£m as at October 2016)

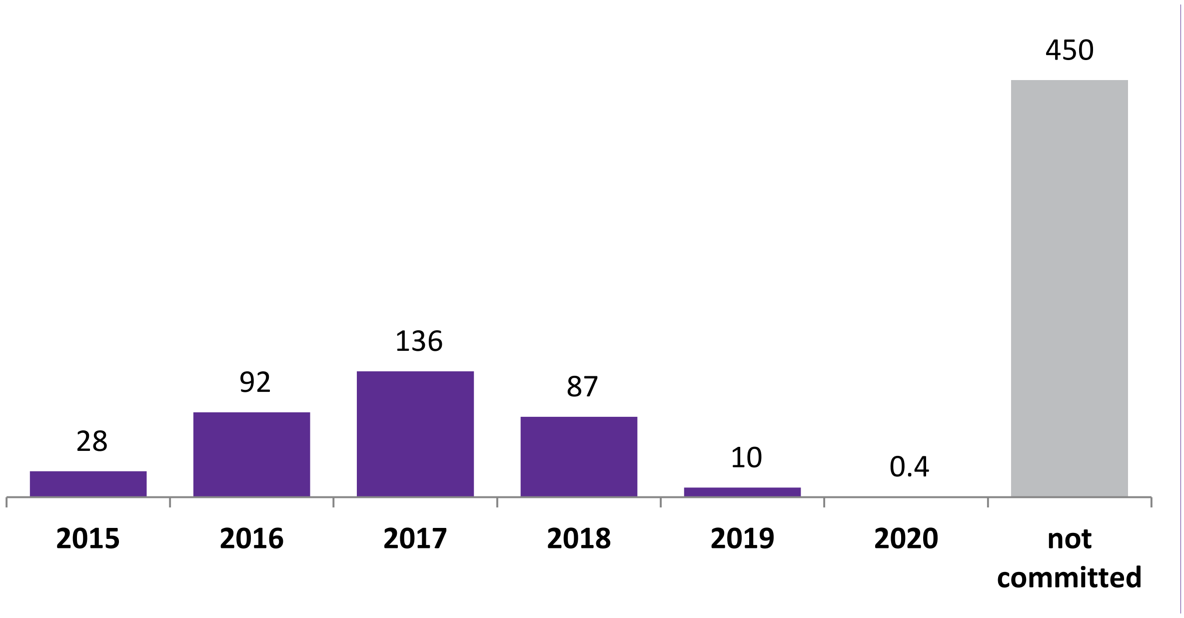


Figure 6 above indicates the level of grant associated with legally committed projects as at October 2016. For illustrative purposes the approximate scale of remaining funding is also estimated, though this will vary significantly as the exchange rate varies.

As at October 2016 some £350million had been legally committed, meaning a further £450 million is available (as long as it is committed before the UK leaves the EU).

The effect of the falling pound

The actual amount of structural funds remaining to be committed will depend on the exchange rate. A weakening pound will have the effect of increasing the value of the structural funds (in pounds).

CAP Pillar 1 payments are converted into pounds at an official exchange rate which is an average of the European Central Bank exchange rates set in September each year. In 2016 the exchange rate has been set at **€ = £0.85228** and this is the rate that has been used in figure 6 above to calculate the amount still to be committed (around £450m)

To illustrate the effect of the falling pound, we can compare with the 2015 exchange rate (set at €: £0.73129). At this rate, around £390 million would have remained to be committed. So at the September 2016 exchange rates, in comparison with 2015, Scotland might now have an additional £60 million of structural funds available. It should be noted that structural funds require match funding from Scotland if they are to be drawn down. Clearly also the exchange rate may vary over coming months and years.

COMPETITIVE FUNDING

EU Competitive Programmes are programmes which are financed directly by the European Union's budget and are aimed at contributing to the implementation of EU policies. As a general rule, these programmes are transnational, which means that the participation of partners from more than one member state is required for the submission and implementation of a proposal. Proposals are submitted for approval directly to the European Commission, without the intervention of the Institutions of the member state. The proposals submitted compete with proposals from all member states and successful proposals are selected after a comparative evaluation of all proposals submitted.

In the case of competitive funds, Scottish projects, or projects involving Scottish stakeholders need to bid for funding against other applicants across the European Union. There is no pre-allocated share for member states.

Historically, Scotland has been successful in accessing competitive funding. During the 2007 – 2013 funding period Scotland benefited from access to several of the EU Competitive Programmes most notably the Seventh Framework Programme for Research and Technological Development also known as FP7. This programme has been succeeded by Horizon 2020 (see below).

Scottish organisations were also awarded funds from other strands of competitive funding from this funding period. For example, this included grants from the Competitiveness and Innovation Programme, LIFE+ ERASMUS, and HEALTH programmes.

Horizon 2020

The main source of EU competitive funding that Scotland accesses is from the Horizon 2020 programme.

Horizon 2020 is the EU's main funding programme for research and innovation. Horizon 2020 looks to coordinate and pool research efforts across Europe and has a total budget of €76.4 billion for the period from 2014 to 2020.

Opportunities for funding are outlined in biennial 'work programme' documents published by the European Commission, with grants being allocated on a competitive basis to the best proposals. The proposals are judged and ranked on the scientific excellence of the proposal, on how they will be delivered (implementation) and on the expected impact that the project will have. As with other competitive funds there is no geographical allocation or weighting of the funds.

How much Horizon 2020 funding has Scotland secured?

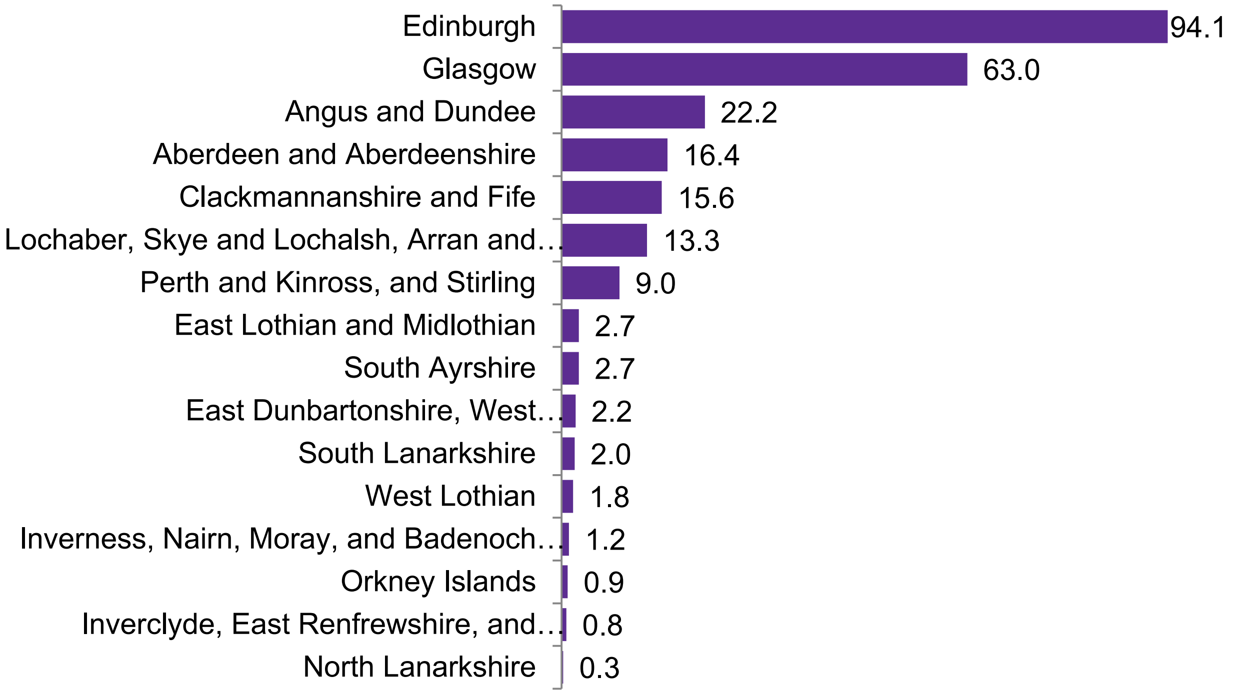
By 27 July 2016, Scottish organisations participated in projects which had secured €250 million of Horizon 2020 funding (around £210 million). This represents 11.4 per cent of the total Horizon 2020 allocation to the UK to date. These awards have been made to Universities, Research Institutes, Businesses, the Public Sector and other types of organisations.

Which parts of Scotland have taken part in Scottish Horizon 2020 projects

Further analysis of the Horizon 2020 grants show the different geographical location and the types and numbers of organisations within Horizon 2020 projects that Scottish organisations are participating in.

Figure 7 below shows the geographic areas of Scotland which participate in projects which have received Horizon 2020 funding (up to July 2016). The two biggest recipients of funding are Edinburgh (which participates in 480 projects) and Glasgow (166 projects). This in part reflects the number of universities in Edinburgh and Glasgow which, as Figure 8 shows, are the biggest recipients of Horizon 2020 funding in Scotland.

Figure 7: Geography of Scottish Horizon 2020 projects (€m)



Types of organisation in receipt of Horizon 2020 funding

Higher education institutions (HEIs), businesses and research institutes have been the main beneficiaries. Scottish universities are participating in projects in receipt of €184 million. Research institutes are participating in Horizon 2020 projects worth €18 million. These include the James Hutton Institute and Moredun Research Institute.

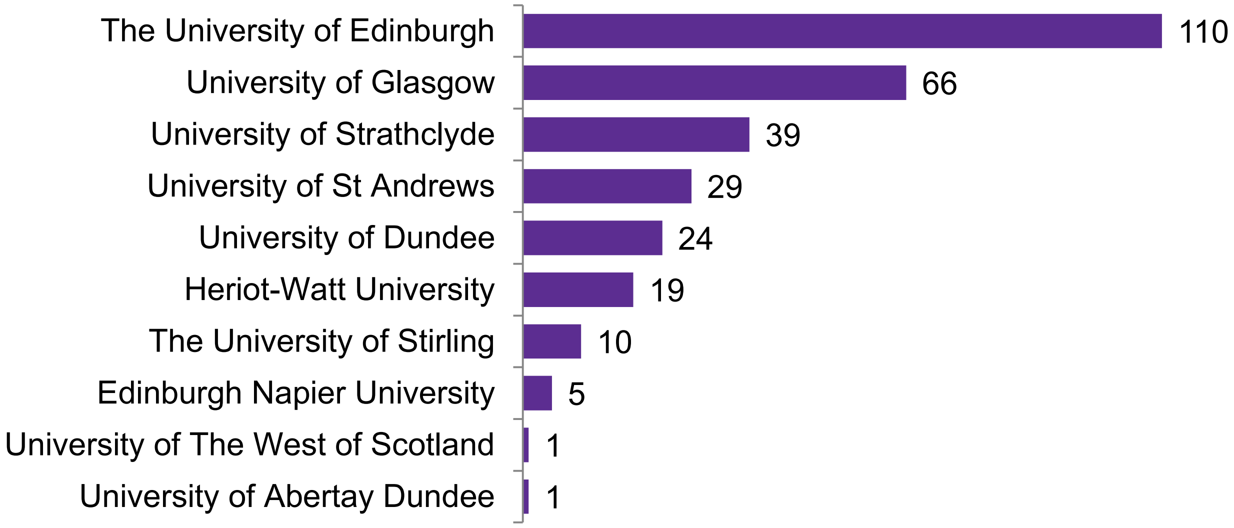
In addition, almost €40 million of Horizon 2020 funding has been awarded to Scottish businesses, which includes almost €30 million going to small and medium enterprises.

Figure 8: Scottish sectors in receipt of Horizon 2020 funding (€m)

SCOTTISH UNIVERSITIES IN RECEIPT OF HORIZON 2020 FUNDING

Figure 9 shows the number of projects (as at 27 July) that Scotland's universities were participating in. The University of Edinburgh was involved in 110 Horizon 2020 projects whilst for the University of Glasgow it was 66 projects.

Figure 9: Scottish universities participation in Horizon 2020 projects



The effect of the EU referendum on future research funding to Scottish HEIs is not yet known. However, early analysis of the potential implications for academic researchers published in The Guardian (2016) suggests a risk that UK researchers will be cut from any planned EU research bids as a result of the decision by the UK to leave the European Union.

In an effort to reassure the UK's potential Horizon 2020 partners, The UK Government's Treasury guarantee provided support for UK participation in Horizon 2020 projects which continue after the UK has left the EU.

ANNEX - OTHER EU FUNDING PROGRAMMES

The 2014-2020 multi-annual financial framework also provides funding for a number of other European programmes. Details of these are provided on the European Commission website. The details for a number of these programmes are reproduced below.

Asylum, Migration and Integration Fund (Security and Citizenship)

The Asylum, Migration and Integration Fund focuses on people flows and the integrated management of migration. The fund supports actions addressing all aspects of migration, including asylum, legal migration, integration and the repatriation of non-EU nationals (termed irregular immigrants by the European Union).

The programme is worth €3.1 billion.

Civil Protection Mechanism (Security and Citizenship)

The Civil Protection Mechanism coordinates the EU's response to natural and man-made disasters within and outside the Union.

The programme is worth €223.8 million.

Cohesion Fund (Smart and Inclusive Growth)

The Cohesion fund aims at reducing economic and social shortfall, as well as stabilising the economy of Member States whose Gross domestic product (GDP) per inhabitant is less than 90% of the EU average.

The programme is worth €74.9 billion (with €11.3 billion being allocated towards the Connecting Europe facility).

Common Foreign and Security Policy (Global Europe)

The role of the EU's foreign and security policy is to preserve peace and strengthen international security; to promote international cooperation; and to develop and consolidate democracy, the rule of law and respect for human rights and fundamental freedoms.

The programme is worth €2.3 billion.

Consumer Programme (Security and Citizenship)

The Consumer Programme helps citizens to fully enjoy their consumer rights and to actively participate in the Single Market. The programme focuses on four areas: monitoring and enforcing product safety; consumer information and education; consumer rights and effective redress; strengthening enforcement cross-border.

The programme is worth €188.8 million.

Copernicus (Smart and Inclusive Growth)

Copernicus is a European system for monitoring the Earth. It ensures the regular observation and monitoring of Earth sub-systems, the atmosphere, oceans, and continental surfaces, and provides reliable, validated and guaranteed information in support of a broad range of environmental and security applications and decisions.

The programme is worth €4.3 billion.

Competitiveness of Enterprises and SMEs (COSME) (Smart and Inclusive Growth)

The COSME programme is a new programme for the 2014-2020 funding programme. COSME supports the competitiveness, growth and sustainability of EU's enterprises, in particular SMEs, and promoting entrepreneurship. To reach these goals, the programme eases SME's access to finance by providing loan guarantees and risk-capital. It facilitates access to new markets inside and outside the EU and reduces the administrative burden on SMEs.

The total budget for COSME is just under €2.3 billion. (European Commission 2014c)

Creative Europe (Security and Citizenship)

The Creative Europe programme supports European cinema and cultural and creative sector. It supports tens of thousands of artists, cultural professionals and cultural organisations in the performing arts, fine arts, publishing, film, TV, music, interdisciplinary arts, heritage, and the video games industry, allowing them to operate across Europe, to reach new audiences and to develop the skills that are needed in the digital age. By helping European cultural works to reach new audiences in other countries, the programme contributes to safeguarding and promoting Europe's cultural and linguistic diversity.

The programme is worth €146.7 million

Development Cooperation Instrument (Global Europe)

The Development Cooperation Instrument focuses on combating poverty in developing countries. It also contributes to the achievement of other objectives of EU external action, in particular fostering sustainable economic, social and environmental development as well as promoting democracy, the rule of law, good governance and respect for human rights.

The programme is worth €19.6 billion

Employment and Social Innovation Programme (Smart and Inclusive Growth)

The Employment and Social Innovation Programme supports employment and social policies across the EU. The programme supports Member States efforts in the design and implementation of employment and social reforms at European, national as well as regional and local levels by means of policy coordination and the identification, analysis and sharing of best practices.

The programme is worth €919.4 million

EU Aid Volunteers (Global Europe)

The EU Aid Volunteers project provides a practical training for humanitarian volunteers and ensures their deployment in EU funded humanitarian aid operations worldwide.

The programme is worth €147.9 million

EU Civil Protection and European Emergency Response Coordination Centre (Global Europe)

The Civil Protection Mechanism coordinates the EU's response to natural and man-made disasters within and outside the Union.

The programme is worth €144.6 million

European Instrument for Democracy and Human Rights (Global Europe)

The European Instrument for Democracy and Human Rights provides support for the promotion of democracy and human rights in non-EU countries.

The programme is worth €1.3 billion.

Erasmus + (Smart and Inclusive Growth)

Erasmus+ aims at boosting skills and employability. The programme will increase the quality and relevance of Europe's education systems by providing funding for the professional development of education and training staff, as well as youth workers and for cooperation between universities, colleges, schools, enterprises, and NGOs.

The programme is worth €14.8 billion.

European Neighbourhood Instrument (Global Europe)

The European Neighbourhood Instrument promotes enhanced political cooperation and progressive economic integration between the Union and its neighbouring countries.

The programme is worth €15.4 billion.

Europe for Citizens (Security and Citizenship)

The Europe for Citizens programme supports activities to increase awareness and citizens' understanding of the EU and of its values and history. The programme will also help people become more engaged in civic and democratic activities through debates and discussions on EU-related issues.

The programme is worth €185.5 million.

Food and Feed (Security and Citizenship)

The new animal and plant health programme aims at strengthening the enforcement of health and safety standards for the whole agri-food chain. The package of measures provide a modernised and simplified approach to the protection of health and more efficient control tools to ensure the effective application of EU agri-food chain rules.

The programme is worth €1.9 billion.

Galileo (Smart and Inclusive Growth)

The Galileo programme is Europe's initiative for a state-of-the-art global satellite navigation system, providing a highly accurate, guaranteed global positioning service under civilian control. The fully deployed system will consist of 30 satellites and the associated ground infrastructure. Galileo will be inter-operable with GPS and GLONASS, the two other global satellite navigation systems.

The programme is worth €7.1 billion.

Health (Security and Citizenship)

The EU Health Programme is about fostering good health in Europe by encouraging cooperation between Member States to improve the health policies that benefit their citizens. The programme aims at complementing the health policies of EU Member States to promote health, reduce health inequalities, protect people from serious cross-border health threats, encourage innovation in health and increase the sustainability of their health systems.

The programme is worth €449.4 million.

Humanitarian Aid (Global Europe)

The aim of the EU humanitarian aid policy is to provide assistance, relief and protection to people outside the EU victims of natural or man-made disasters.

The programme is worth €6.6 billion.

Instrument for Pre-accession Assistance (IPA II) (Global Europe)

The Instrument for Pre-Accession provides financial support to the enlargement countries in their preparations for EU accession.

The programme is worth €11.7 billion.

Instrument contributing to stability and peace (Global Europe)

The Instrument contributing to Stability and Peace (IcSP) is one of the key external assistance instruments that enable the EU to take a lead in helping to prevent and respond to actual or emerging crises around the world.

The programme is worth €2.3 billion.

Internal Security Fund (Security and Citizenship)

The Internal Security Fund supports the implementation of the Internal Security Strategy and the EU approach to law enforcement cooperation, including the management of the union's external borders.

The programme is worth €3.8 billion.

IT systems (Security and Citizenship)

EU State authorities need to cooperate on border management to ensure the security of citizens and travellers in the EU. A number of information sharing mechanisms are central to this cooperation:

- the Visa Information System (VIS) allows Schengen States[2] to exchange visa data;
- the Schengen Information System (SIS) allows Schengen States to exchange data on suspected criminals, on people who may not have the right to enter into or stay in the EU, on missing persons and on stolen, misappropriated or lost property.

The programme is worth €138.7 million.

[2] Schengen is an area without internal borders, an area within which citizens, many non-EU nationals, business people and tourists can freely circulate without being subjected to border checks. All EU Member States are member of the Schengen area with the exception of the United Kingdom, Ireland, Romania, Bulgaria and Croatia. In addition, Norway, Lichtenstein and Switzerland are members of the Schengen area. Although the UK is not a member of the Schengen area it is able to participate in the Schengen Information System, a decision on participation is likely to be made before the end of 2014. (UK Parliament 2014)

ITER (Smart and Inclusive Growth)

ITER is an international collaborative project (EU, US, China, Japan, India Russia, South Korea) to demonstrate the potential of nuclear fusion as an energy source. It is one of the world's most ambitious research endeavours. Its results could dramatically change the world's energy landscape opening the way to a safe, affordable, inexhaustible and CO2-free source of energy.

The programme is worth €3 billion.

Justice Programme (Security and Citizenship)

The Justice programme aims to make sure that EU legislation in civil and criminal justice is effectively applied. It helps ensure proper access to justice for people and businesses in cross-border legal cases in Europe and supports EU actions to tackle drugs and crime.

The programme is worth €377.6 million.

LIFE Programme

The Life Programme aims at improving the implementation of EU environment and climate policy and legislation. The programme will contribute to the shift towards a resource-efficient, low-carbon and climate resilient economy, to the protection and improvement of the quality of the environment and to halting and reversing biodiversity loss.

The programme is worth €3.5 billion.

Macro-financial Assistance (Global Europe)

Macro-financial assistance is an exceptional EU crisis response instrument. It provides loans and grants to EU neighbours dealing with serious, but generally short-term, balance-of-payments or budget difficulties. It is conditional and complements assistance by the International Monetary Fund.

The programme is worth €564.6 million.

Nuclear decommissioning assistance programmes (Smart and Inclusive Growth)

Nuclear decommissioning assistance programmes finance the decommissioning of some nuclear installations in Bulgaria, Lithuania and Slovakia.

The programme is worth €1.6 billion.

Partnership Instrument (PI) (Global Europe)

The overall objective of the Partnership Instrument is to advance and promote EU interests by supporting the external dimension of internal policies (e.g. competiveness, research and innovation, migration) and to address major global challenges (e.g. energy security, climate change and environment).

The programme is worth €954.8 million.

Rights, Equality and Citizenship (Security and Citizenship)

The programme will help to make people's rights and freedoms effective in practice by making them better known and more consistently applied across the EU. It will also promote the rights of the child, the principles of non-discrimination (racial or ethnic origin, religion or belief, disability, age or sexual orientation) and gender equality (including projects to combat violence against women and children).

The programme is worth €439.4 million.

Youth Employment Initiative (Smart and Inclusive Growth)

The Youth employment initiative supports young people not in education, employment or training in the Union's regions with a youth unemployment rate in 2012 at above 25%. The initiative focuses on integrating these young people into the labour market. Of the funding, €3 billion come from a dedicated Youth Employment budget line complemented by €3 billion more from the European Social Fund.

The programme is worth €3.2 billion.

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