

ECONOMIC DEVELOPMENT AND TRANSPORT COMMITTEE

EDT2 10-05 (p3)

Date:	14 July 2005
Time:	2.00 - 3.20
Venue:	National Assembly for Wales
Title:	Post 2006 Structural Funds Update

Purpose

1. The Committee is asked to note the content of the paper for information.

Summary

2. The paper has been requested by the Committee. It contains a brief overview of the following areas:
 - Negotiation of the draft Structural Funds regulations published in July 2004;
 - The outcome of the European Council on 16 - 17 June;
 - The Welsh context;
 - Welsh policy framework – A Winning Wales 2;
 - Territorial Co-operation proposal and discussions with Republic of Ireland;
 - Eurostat data and impact on eligibility for Convergence programmes;
 - Discussions with key stakeholders;

- Agreed principles for post 2006 programmes – see also Annex A ;
- Workstream proposals.

Background

3. The current round of European Structural Funds are due to finish at the end of 2006, though expenditure will continue to 2008. The EU Commission's proposals for a new round of Structural and Cohesion fund programmes (2007 – 2013) were published in July 2004, and since then negotiations have taken place simultaneously on the Financial Perspectives (EU budget) and the Structural Funds regulations.

4. The UK Government's view has consistently been that the overall budget proposals made by the European Commission for 2007-13, are too high. It is one of six Member States to have opposed any budget proposals exceeding 1.0% of EU GDP. It also maintains that there should be a smaller budget for structural and cohesion funds, with the focus on new Member States, while wealthier states take responsibility for funding their own regional policy priorities. The Secretary of State for Trade and Industry set out the UK Government's position for Structural Funds reform in two written statements to Parliament of 17 September and 11 December 2003.

The Outcome of the European Council on 16 - 17 June

5. On 17 June, EU Heads of State failed to reach agreement over the post-2006 EU budget, or Financial Perspective, which is expected to cover the period 2007-2013. The UK Government will now be charged with trying to broker agreement to the budget during its Presidency, which began on 01 July. UK Ministers have stated their commitment to achieving agreement, while holding firm to their call for a fundamental review of EU spending, to embrace both the UK rebate ("the abatement") and the Common Agricultural Policy. As well as the complexity of securing 25 Member States' agreement, the European Parliament must give its endorsement to parts of the budget.

6. While there are 18 months until the current budget expires, early agreement will help Member States to prepare for post-2006 funding programmes. Agreement of the budget does not automatically mean the end of the structural funds negotiations, which are conducted separately, but it will mean that Member States know how much money will be available for each programme and each Member State. Allocations for Convergence programmes by Member State will be based on the three most recent years' GDP data. Once the budget is settled, it may take a period of months for the structural funds negotiations to be finalised, though it is the UK's intention to make as much progress as possible on these during its Presidency.

7. On the Structural and Cohesion Funds, the UK Government maintains that there should be a smaller budget, focused on the poorer countries of the EU, primarily the new Member States, while wealthier

states take responsibility for funding their own regional policy priorities. All preparation in Wales is therefore being conducted without prejudice to the UK position.

8. The negotiations between Member States on the Structural Funds Regulations have been continuing in the Structural Actions Working Group since July 2004. My officials have an input to this process and Welsh issues are represented at these weekly meetings. While there are some technical issues still outstanding on the General Regulation, good progress has been made on the ERDF and the ESF regulation. The UK will now take over the role of chair of the group and aims to reach agreement on all the outstanding technical issues by the end of the year so that regulations can be finalised shortly after agreement on the budget. The ESF and ERDF regulations are co-decision regulations with the European Parliament and further amendments may come from MEPs.

The Welsh Context

9. Subject to the outcome of any decision on the Financial Perspective, the draft Structural Fund regulations envisage that there may be up to five future programmes in Wales: with West Wales and the Valleys potentially being eligible for Convergence Programmes (both ERDF and ESF), and East Wales retaining eligibility for Competitiveness and Employment Programmes (again both ERDF and ESF). If the regulations are agreed it would be highly likely that parts of West Wales will be eligible for a cross-border programme with the East of Ireland, and Wales would also be able to participate in transnational programmes. The Agriculture and Rural Development Funds have moved over to become part of the Agriculture pillar.

10. In terms of content, the regulations envisage that Programmes should demonstrate how, taking account of local and regional need, they are delivering to Lisbon and Gothenburg agendas for a more competitive European economy based on innovation and a knowledge-driven economy. This suggests a rather more focussed set of programmes.

Welsh Policy Framework

11. The Welsh policy framework for any new programmes will be driven by the revised version of our economic development strategy A Winning Wales on which we will be consulting shortly. The key priorities which will influence the focus of any Structural Funds support will be identified within this document, along with other strategic plans such as the Skills & Employment Action Plan 2005, Wales: A Better Country, and the Wales Spatial Plan.

Territorial Co-operation Proposal and Discussions with Rep. of Ireland

12. Within the context of the new Territorial Co-operation Objective (which is replacing the suite of Interreg programmes), Wales is looking in particular at the possibilities for a strategic approach to co-operation with Ireland, and around the Irish Sea more generally e.g. Western Scotland and North West England. There are opportunities to develop a single strategic framework for both cross-border and

transnational programmes, helped by a recent Commission proposal to widen the activity eligible for bilateral maritime co-operation within the transnational strand. There is enthusiasm amongst other partners and WEFO held a bilateral meeting with representatives of the Irish Department of Finance in Dublin, and is also discussing proposals jointly with Northern Ireland, Scotland and England.

Eurostat Data and impact on eligibility for Convergence Programmes

13. Eurostat released new regional GDP statistics for the years up to, and including 2002, on 25 January 2005. GDP per head in West Wales and the Valleys (WWV) relative to the EU25 has been revised downwards compared to previous estimates. Eurostat implemented a methodology for apportioning UK GDP between its regions, reducing the share of GDP going to regions with small financial services sectors (like WWV). The Office for National Statistics has been considering the basis for the new methodology.

14. The latest three-year average for 2000 - 2002 puts GDP per head in West Wales & the Valleys below 75 per cent of the EU25 average. However, if final decisions on the EU budget and regulations are taken late in 2005, or early 2006, after the next Regional GDP data are issued, it is likely that the 2003 data will be included in the 3 year GDP average, with the 2000 figures dropping out. If the improving trend displayed in 2002 is confirmed in 2003, West Wales & the Valleys GDP could rise above 75% of the EU25 average. This would place the region as a Statistical Effect area, reducing the share of funds available. At present the situation regarding WWV's eligibility for the full Convergence programme is too close to call. UK Ministers are well aware of the situation and its implications for Wales.

Principles for Post 2006 Programmes

15. On 14th March, the Cabinet Sub-Committee on Jobs and Skills agreed a set of 'principles' for any post-2006 Structural Funds, should we have them. These were then presented to the External Stakeholder Group for comment. The principles generally received a positive response and, while reserving their position, several of the stakeholders were anxious to engage on the detail. The principles are attached at Annex A.

Discussions with Key Stakeholders

16. Since mid May, officials in WEFO have been holding meetings with strategic umbrella bodies across the public, private and voluntary sectors to inform them of the latest developments to the post 2006 proposals, and obtain their views on how to engage with their wider constituencies. Initial meetings have been held so far with senior representatives of the WLGA, WDA, ELWa, WCVA, WTB, Wales Social Partners Unit, HEFCW, the Equal Opportunities Commission, and the Environment Agency. At these meetings officials have discussed the draft regulations, the progress of Member State negotiations, and proposals for creating workstream groups to take forward preparations for any new programmes should they be available. Further meetings are being arranged with representatives from the education, environment, and equal opportunities fields as well as the Wales TUC.

17. The key messages that have been emerging to date are the need for simplification, the need to involve stakeholders, but in a way that is effective. The idea of small working groups with a limited representation has been welcomed. Although partnership structures have become more effective since the changes following the mid-term review, there is a need to review these further. Stakeholders recognise that there needs to be a strategic fit, and the idea that there may be limited 'pre-identification' of projects to secure early spend.

Workstream Proposals

18. WEFO is proposing to establish a number of workstreams to progress work on any new programmes, whatever the source of funding. This is also a way to engage with external stakeholders in a focused way. The proposal is to establish a small number of 'working groups', drawing in individuals with real expertise and ideas to offer. The groups would be relatively small, between 5 - 10 members, and would be managed by WEFO. The details of the proposed workstreams will be discussed at the External Stakeholders Group meeting on 21 July.

Financial implications

19. There are no financial implications arising directly from this paper. The costs of running the workstreams will be met out of existing administration costs budgets. Programme Budget Planning and Management officials are in discussion with WEFO's Finance Division, and once the funding allocations and implications of any new programmes are known, briefing will be provided. They are aware that financial planning for post 2006 begins with the SR2006 process. The financial clearance number is BP 886.

Cross Cutting Themes

20. The cross cutting themes of equal opportunities, sustainable development and information communication technology are applied to all Structural Funds activity. All projects which apply for, and receive funding under the current programmes must address each of the three themes, demonstrating how they influence or are taken account of, by individual projects. The regulations envisage a role for Sustainable Development and Equal Opportunities for future programmes, as now. A research project looking at the impact of the three themes on projects during the current round of programmes commenced in early July, and one of its objectives is to produce recommendations for any future programmes.

Annex A – Key Principles for Future Regional Development Programmes

1. The Programmes should be developed within the context of the Assembly Government's strategic and policy documents: in particular, Wales: A Better Country; the Wales Spatial Plan; A Winning Wales;

and the Skills and Employment Action Plan 2005.

2. The Programmes should embrace the Lisbon and Gothenburg agendas. This implies that the Programmes will be rather more narrowly focused than at present, with an increased emphasis on skills development and support for the knowledge-based economy.
3. There should be more emphasis on projects where there is a demonstrated strategic need. The framework for this should be the WAG policies such as AWW, with reference to local needs identified by, for example, regional strategies developed within the Wales Spatial Plan.
4. There should be fewer projects, but with ‘deeper’ interventions; the interventions should be based on hard evidence.
5. The Operational Programmes should be far simpler in their structure, as well as its processes – if possible restricted to a few priorities, in order to secure maximum flexibility.
6. There should be more emphasis on regional collaboration in the development of strategies and projects, e.g., the Heads of the Valleys programme.
7. The opportunity should be taken to simplify funding streams within the Welsh Assembly Government, especially match funding. In particular, there should be greater emphasis on pre-match funding and on co-financing. Where possible, Structural Funds interventions should support not only Welsh Assembly Government policies, but also the delivery of those policies through existing funding mechanisms.
8. The programmes should be delivered through appropriate and efficient partnership structures.
9. Sound monitoring and evaluation of both projects and programmes should be built in from the start.

Andrew Davies, AM

Minister for Economic Development & Transport