COMMITTEE ON EUROPEAN AFFAIRS

Date:	**17 October 2001**
Time:	**9.00 am**
Venue:	**Committee Room 3**

The future of the EU Structural Funds

UK roadshow

Introduction

Why are we considering the future of the Structural Funds (SF) when the current round runs until the end of 2006? The key stimulus has been the interest within the UK and the other EU-15 member states in the role of the Structural Funds in an enlarged Union which will have up to 29% more people but only a 6% greater GDP. The drop in the EU average GDP per capita that would result means that if the current regulations and overall budget (up to 0.46% EU GDP) remain unchanged, the levels of national receipts from the SF would be markedly different with many parts of the current EU member states no longer being eligible for SF.

The European Commission's 2nd report on Economic and Social Cohesion published in January considered these issues along with a detailed description of the state of cohesion in the Union and the contribution to increasing cohesion that the SF and other policies were making. The Commission then organised a Cohesion Forum in May as the formal start of a debate on the future of the SF. The DTI's Regional European Funds and Devolution Directorate leads on this issue on a UK basis and in developing policy advice (consulting with Northern Ireland, Scotland and Wales in accordance with Memoranda of Understanding). We felt that it was important to start developing the UK's own views on the forthcoming discussions in Europe and so, in parallel with holding informal discussions with other EU member states, we undertook a series of visits between April and June 2001 to all the English regions, Northern Ireland, Scotland and Wales to talk to people closely concerned with the strategy and implementation of the Structural Funds. This paper summarises the key messages that we gained. This was not a formal consultation but rather a process of collecting initial views to inform our thinking before briefing new Ministers at this early stage in the development of a UK position on the future of the SF. The paper does not represent official Government policy and should be quoted accordingly.

The meetings were hosted by the public sector organisations with lead responsibility for the SF – Government Offices, Regional Development Agencies and the Devolved Administrations. Between 5 and 30 people attended each meeting – the composition varied but involved officials, local government assemblies, Programme Monitoring Committee members, Government Agencies and, in a few cases, local politicians. The UK's Permanent Representation to the European Union and the Treasury were also represented at some of the meetings which included a presentation by us (attached) followed by discussion. Also included in this paper are views gained from two other meetings we held during the same period with the European Policy Research Centre, Strathclyde University, and with the DEFRA (then DETR)-led Environment and Structural Funds Group.

Added value of SF

We received quite consistent messages about participants' views of the added value of the EU Structural Funds compared to national schemes:

- The strong focus on **partnerships**. The development of effective partnerships had been a very positive outcome with individuals and organisations from a wide range of interests working together. Examples were the PEACE programme in Northern Ireland bringing together people from both sides of the community and from the Republic of Ireland; LEADER + helping people in small rural communities to develop their capability to plan and implement projects; and Objective 2 partnerships in Tyneside involving local authorities that had hitherto been in competition with each other for funding.

- The SF often provided the **critical funding element** in a portfolio of funds for a particular project, without which the project could not have happened. They could also be used for innovative or experimental projects which were hard to fund from other sources. They had been useful in some areas, through measures to promote the business case for sustainable processes amongst SMEs, in tackling environmental pollution from diffuse sources.
- There was significant **political value** in having eligibility status (even though it was an admission that that part of the UK was under-performing) and this was seen as something that local politicians had won from Brussels – a funding stream independent of central Government.
- Objective 1 brought with it tier 1 **Assisted Area** status which was probably even more valuable than the SF themselves.
- The **7 year funding cycle** of the SF was seen to be more useful than the annuality of national schemes in terms of planning projects. It also gave a degree of protection against political change (though there was the danger that a dependency culture became

established).

Views on SF receipts post-2006

There was almost universal agreement that to lose the ability to support the work currently funded by the Structural Funds would be a major blow. On the other hand, there was widespread recognition that under the current rules, eligibility for Objective 1 and 2 funding would be lost from much of the UK after 2006 (Objective 3 currently applies across the whole EU outside Objective 1 and transitional Objective 1 areas). There were different opinions about whether the UK should try to negotiate for continued receipts or to forego the SF if the Government agreed to provide compensation. In the later roadshow meetings, we described the positions recently taken by Germany (the so-called "net fund" model where net contributors would forego SF receipts in return for increased flexibility to use national funding) and Spain (arguing for continued receipts of Objective 1) as contrasting extremes. There was not a consistent view among roadshow participants on whether national or EU funding was preferable but many doubted whether HM Treasury would agree to provide compensation for loss of EU funding (as the German Federal Government has recently agreed to do).

The point was often made that the very parts of the UK which would be most severely affected by a loss of eligibility for SF (because of a drop in the EU average GDP per capita when much poorer member states join) would be the parts of the UK that were lagging. These areas shouldn't have to "pay" for enlargement. It was suggested that the total SF budget could be increased using money from three possible sources: economic growth across the EU as happened during the last negotiation in 1999; redirection of the Cohesion Funds (though it is difficult to see on what basis it could be argued that these funds should go to richer member states rather than to the poorest ones as at present); or money saved from reform of the Common Agricultural Policy (it is considered unlikely that reform will reduce the overall budget for the CAP in the short to medium term though there may be some transfer to supporting rural development rather than markets and prices – see below).

Block grants to Northern Ireland, Scotland and Wales complicate the issue of the amount of UK SF receipts. The Barnett formula takes into account EU receipts and some believed that it would compensate for loss of SF in these nations. Others argued that loss of EU receipts might trigger a re-negotiation or re-interpretation of the formula.

In Objective 1 areas, there is a strong political impetus for continued receipts (particularly for transitional aid) though some areas had not improved their performance despite getting considerable receipts from Objective 1 for many years (eg Merseyside's GDP per capita has decreased during the last period of funding). We heard that most Objective 1 areas would struggle to reach 75% of the EU-15 average GDP per capita by 2006 (though they would be between 80 and 85% of an enlarged EU average) despite the aims they have set themselves in their Objective 1 plans.

Loss of state aids eligibility, if Objective 1 and tier 1 Assisted Area status continue to be linked, would be a big problem. Where transitional Objective 1 or Objective 2 areas and tier 2 areas Assisted Area status overlap, there would be significant effects there too. There was a suggestion that Objective 1 and tier 1 might be decoupled or that transitional Objective 1 might link to a "transitional tier 1" level of state aids eligibility.

In Objective 2 areas, opinions varied depending on the amount of receipts involved. For instance, in one English region, Objective 2 is an important source of aid for old industrialised areas and retaining receipts was regarded as very important. However, in another region, where eligibility is confined to a very small geographic area, some thought that given the administrative overheads involved for these small projects it would be better to have more thematic funding which could be used over a larger part of the region.

Objective 3 was thought to be a useful source of funding for skills-related projects, which were a high priority in all parts of the UK, though it was recognised that the amount of money involved was spread quite thinly. Some thought that targeting funding to areas of need would be better though others disagreed and wanted continued wide coverage.

Targeting of current and future SF interventions

In most cases, the relevant strategic documents (Regional Economic Strategies in England, the Framework for Economic Development in Scotland and the Strategy 2010 document and related policies in Northern Ireland) had been developed in parallel with the SF Single Programming Documents (SPDs) though the National Economic Development Strategy for Wales is still in preparation. This process had had the result that the SF usually supported the strategies well, though we heard that Objective 3 priorities were set at a national level and sometimes conflicted with the local ones.

For the future it would be important to consider the implications of possible devolution of the English regions. One model put forward, assuming continued SF receipts in the UK, was a high level framework held by each Assembly within which the Regional Economic Strategy (RES) was developed and then implemented using the SPD as one source of funding.

There was a fairly consistent view that expenditure towards meeting the objectives of the SF needed to be focused and not spread too thinly. However, the inflexibility of, in particular, the Objective 2 eligibility map caused practical problems in implementation, for example one side of a road being eligible and the other not. Objective 2 was thought to be too blunt an instrument to tackle fine-grain pockets of deprivation in England and in Scotland (eg peripheral and remote regions) though some questioned why the EU needed to be involved at all at such a small scale. In the future, a better balance would be needed between thematic and geographic targeting of measures to help deprived areas though we did not get a clear idea of how this balance might be determined. If spatial development principles are used in developing future policy on the SF, we heard that this should not be based just on geography and map boundaries. For example, it should not treat the whole of NW Europe as a single area.

External shocks (eg Corus, Vauxhall, foot and mouth disease) can have very significant effects and opinions varied on the usefulness of SF in responding to such shocks. In Wales, it had been possible by negotiation with the Commission to use Objective 1 and 2 money to respond to Corus but in the NW, addressing the problems caused by foot and mouth disease would have been much easier if there had been more flexibility to use SF in the particular areas affected.

The continued use of GDP per capita as the basis for determining eligibility was frequently queried as it is not sensitive to small scale pockets of deprivation. It does have the advantage, however, that broadly comparable data are available for all the current and future member states as well as for the areas within them that are used to administer the SF.

EU and UK policies addressing rural areas needed to be more coherent to tackle the strategic problems identified by the RESs. Funding from the CAP, SF and national schemes needed to be better integrated. For instance if reform of the CAP transferred more money from Pillar 1 (market support) to Pillar 2 (rural development), it might be possible to compensate with a reduction in the contribution from the SF for rural areas thus freeing up funds for use elsewhere.

The current set of Community Initiatives were felt to be a mixed bag and most useful where they were innovative, less so where they overlapped other initiatives. Leader + was excellent, Equal was very similar to Objective 3, Urban gave a useful focus to urban issues but in only three cases was it thought that there was much value in Interreg, mainly in terms of cultural exchange and developing business contacts.

Evaluation of the impact of the SF

There is a strong focus in the current round on evaluation of the outputs of the SF against the objectives set out in the SPDs. It was widely recognised, however, that the comprehensive evaluation framework used focuses on short to medium term measures. Although all roadshow participants could give examples of prestigious projects funded by the SF, many could not attribute observed long-term improvements to the SF. To date, most evaluations, including those of the Commission its 2nd report, have concentrated on measuring inputs and rely on GDP per capita as the single criterion of benefit. Whilst it was recognised that value for money, in terms of how effectively the money is spent, was very important, it was agreed that quantifying the *added value* of spending the money through the SF rather than in some other way was also important.

The need for a greater focus on outcome rather than output evaluation was a consistent message and it was suggested that in England, the regional intelligence units in the Regional Development Agencies should be involved. Evaluation of the longer-term impacts of the SF and of the additional benefits they gave to national policies was starting to be done in Scotland but it was at an early stage. A problem with doing this more widely across the UK was that relevant data had not been collected in previous rounds of the SF.

Administration of the SF

The negotiation of the SPDs had been long and tortuous but the considerable rigour that the Commission had insisted upon had been beneficial in many cases and it was felt that the SPDs had been improved as a result. Some felt that there were too many regional players involved in decision-making and that though this contributed towards greater transparency, it also made decision-making an over-lengthy process.

Although the bureaucracy involved with administering the funds was a burden on the relevant authorities, the need for strong financial control and auditing was widely recognised and agreed with. If funds were to be more tightly targeted in future (to tackle specific problems in specific places), a balance would need to be struck so that there were not too many small projects which would be very expensive to administer (the reduction in the number of CIs in this round was welcomed in this respect). We heard many times that some of the rules applying to the current round, such as n+2 decommitment, worked against increased quality and added value as there was a lot of pressure to spend the money quickly. Replacing grants with revolving loans was suggested as a way of lengthening further the period of funding.

Sustainable development

In developing their Regional Economic Strategies (RESs), English regions had explicitly considered sustainable development, although the extent that this was reflected in each of the RESs varied. Some SPDs had also explicitly considered sustainable development but had not been informed by the Regional Sustainability Frameworks which are only now being finalised. The definition of "rural" in Objective 2 was unhelpful in focusing on the extent of agricultural unemployment – the quality and seasonality of this employment was more significant than the numbers employed.

Decisions on future interventions would need to take into account the effects of geological and climatic change, particularly in coastal areas of the East of England. Was it appropriate to continue to make significant interventions where, in the long term, there might not be a population to support?

Next steps

At the informal meeting of EU regional policy ministers in Namur, Belgium, on 13 July, the UK, other EU member states and the Commission all called for analysis and discussion of the *purpose* of the SF and on how to make them more effective before any discussion of allocations to particular member states. This was also the view held by many of the participants in the roadshow.

We are some considerable way from the start of formal negotiations on the future of the structural funds but we will do our best to maintain the dialogue that we have established with the participants in the roadshow meetings as discussions within Government and in Europe continue. We encourage all those who have contributed to the discussions so far to continue to work with us and local stakeholders to ensure that the eventual outcome is a good one for the UK.

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