

EUROPEAN AND EXTERNAL AFFAIRS COMMITTEE EUR-03-02(p7)

Date:	8 May 2002
Time:	9.30am
Venue:	Committee Rooms 3 and 4, National Assembly Building
Title:	Update on EU Structural and Cohesion Policy

Purpose of Paper

1. The Committee has requested a paper to:

- Report on progress in respect of European cohesion; and
- Report on work being carried out to assess the extent of variations within regions benefiting from structural funds and in hand to address them.

Summary/Recommendations

2. Part One of the paper provides an update on the ongoing "cohesion debate", with a summary at Annex A of the recently-published Commission progress report. Part Two deals with work on evaluation of the structural funds. Annex B, while not representing a Welsh Assembly Government position, offers a commentary by the Statistical Directorate on the use of data by the Commission to illustrate regional disparities in GDP per head, in response to questions previously raised by a member of EDC.

3. The Committee is invited to note and comment on the paper, and agree to its circulation to Members of the European and External Affairs Committee.

Timing

4. There are no particular timing issues.

Part One: Background

5. Members of EDC attended a presentation by DTI officials at last October's meeting of the European Affairs Committee. Since then, the Commission has published an update on the Second Report on Economic and Social Cohesion, the First Progress Report. An overview of the progress report, previously presented in a paper to the European and External Affairs Committee (EUR-01-02 [P.5], 13

February 2002), is at Annex A.

6. The UK will participate in forthcoming cohesion workshops in Brussels which will offer an opportunity for a more in-depth technical discussions than have been held to date, although the precise objective of the workshops or the expected contribution of member states has not been set out by the Commission yet. The Welsh Assembly Government will be represented at these. A further progress report is expected early in 2003, followed by the Third Report on Economic and Social Cohesion. The Third report, not expected before the end of 2003, will contain the Commission's proposals for structural and cohesion funds post-2006.

7. The UK Government is calling for a "fundamental review" of the structural funds, a point supported in the First Minister's letter to Commissioner Michel Barnier of 17 December 2001.

8. The progress report illustrates convergence at the Member State level. A number of Member States, including Spain and Portugal are keenly interested in discussing the issue of internal regional differences within current Member States and whether or not structural and cohesion funds are tackling them effectively.

Consideration

9. Members will note that the Progress Report, published in January 2002, bases its analysis on an EU of 25 rather than 27 Member States (excluding Romania and Bulgaria for the time being).

10. The progress report cites the "least developed regions" as the priority target for cohesion policy post-2006, based on GDP per head. It states that the current Objective 1 regions should not experience a "cut-off of aid, especially where this is due to the statistical effect of enlargement" but comments that the means of achieving this have yet to be agreed. The report notes that at the regional level, political and economic arguments have been made in favour of urban areas, areas undergoing economic restructuring or with a permanent geographical handicap. The Commission's stated concern is to add value to national actions, and to ensure that Community priorities are better-targeted by cohesion expenditure, linking the so-called Lisbon agenda to structural funds support.

11. Annex B gives a technical consideration of the disparity measures shown in the Progress Report.

Position in Wales

12. Assembly Government officials (and their counterparts in the Northern Ireland and Scottish Executives) have stressed to DTI the keen interest in the future of the funds already being voiced in our respective countries. This interest will undoubtedly increase as partners in Wales begin to formulate their own positions on the future and as work on the mid-term review of the current programmes and other aspects of the "fundamental review" begin to produce informative results.

13. The Assembly Government's initial response was set out in a letter to Commissioner Michel Barnier last December, a copy of which was provided to EDC and EEAC members. Our comments were taken into account in the production of the progress report.

14. The Welsh Assembly Government will be represented as part of the UK delegation to forthcoming "cohesion workshops" being held in Brussels. A representative of local government in Wales is expected to attend as part of an LGA delegation. Local government's position on post-2006 is being developed through a WLGA-led cohesion group.

UK Position

15. Although the current EU Presidency has not seen any major developments or announcements on cohesion policy, with this subject hardly featuring at the recent Barcelona council, the UK Government expects it to become higher profile over the next 12-18 months. The UK Government itself has said little in public to date; its position is at the internal discussion stages (Assembly Government officials participate in these discussions and will be closely involved in the development of the UK position). It is understood to have welcomed the progress report as presenting the debate in a balanced way and in not seeking to draw conclusions or commit to particular positions at this early stage.

16. The UK Government was represented at a recent structural actions working group in Brussels, at which the Spanish presented a detailed paper for discussion. Spain is one of the few Member States to have made public statements about the future at this stage: in general, the southern member states have firmer views already about their aspirations for post-2006 while northern countries are keener to avoid rushing the debate into specific areas at such an early stage.

Other Member states' positions

17. While in general, many Member States' responses to the Second Cohesion Report were muted, Germany has proposed a **net fund model** whereby net contributors to the EU would receive a certain, fairly modest, proportion (say 10%) of existing receipt levels, with the remainder going to candidate states in Eastern Europe and the poorest of the EU-15. The Netherlands have proposed a **cohesion approach** in which countries with GDP higher than the EU average receive no structural funds. Spain has called for **Objective 1** to be maintained in the EU-15 as well as extended to the candidate states.

18. Member state responses to the progress report are as yet unknown.

Part Two: Evaluation of the impact and added value of the EU Structural Funds in the UK

19. The questions of what value the EU can add to Member States' own actions and whether the system of support for cohesion should be simpler are being fully explored. The DTI have started preparations for an evaluation project which will attempt to address the issue of added value for the UK. It will ask:

- What has been the quantifiable impact of the Structural Funds at regional and local levels?
- In what other ways have the Structural Funds been useful to the UK?
- Could national initiatives achieve similar outcomes to Structural Funds measures through more efficient means?

20. DTI has commissioned Strathclyde University and the Fraser Associates to undertake a feasibility study, the results of which will inform the design of the proposed future evaluation of the impact and added value of enterprise and regeneration activity funded by the European Structural Funds in the UK.

21. The feasibility study is at the "case study" stage and will involve Wales as one of the cases studied. The purpose of this stage is to capture the differences between five or six diverse cases consisting of the English Regions and the devolved administrations. This will then feed into the design of the main evaluation.

22. The fieldwork for the remainder of the feasibility study was to take place in the week beginning 15 April 2002 with the draft final report ready by 6 May 2002.

23. The main evaluation study will commence thereafter. It will have to consider the previous generation of SF programmes as a complete programming cycle will be required. It will probably overlap with the midterm evaluation of the current generation of programmes.

24. Monitoring and Evaluation of the European Structural Funds in Wales will be carried out by the Wales European Funding Office as part of their remit to manage and implement the current structural funds programmes. WEFO's work will inform the develop of ministerial policy on the future of the structural funds. Their monitoring and evaluation strategy includes an objective to "generate knowledge on which to base decisions on the future involvement of Wales in European initiatives." To inform the way in which the Assembly government will proceed in meeting this objective officials have kept in close touch (through the technical steering group) with DTI's UK- wide study of the added value of Structural Funds.

Compliance

25. The UK Government has the lead, as Member State, on the development and coordination of structural and cohesion policy. DTI are the lead UK Government Department on coordination matters; while the Concordat on the Coordination of European Union Policy Issues sets out the following:

"Participation in formulation of UK Policy (including Resolution of Differences)

B3.4 It is the Government's intention that Ministers and officials of the devolved administrations should be fully involved in discussions within the UK Government about the formulation of the UK's policy position on all issues which touch on matters which fall within the responsibility of the devolved administrations."

26. DTLR, the Scottish and Northern Ireland executives and the Welsh Assembly Government are responsible for management of structural funds programmes. The Welsh Assembly Government has delegated the management of the main current Wales SF programmes to the Wales European Funding Office. The Cabinet is advised on structural and cohesion policy matters by European and External Affairs Division.

27. There are no finance issues arising from this paper.

Cross-cutting themes

28. The future of the structural funds is likely to be of interest to a number of subject committees, as well as to the European & External Affairs Committee. It is recommended that the Committee agree to the wide distribution of this paper to other committees for information.

Action for the Economic Development Committee

29. This paper has been prepared for information.

Contact points

- Cohesion Reports and post-2006: Jackie Brown, European & External Affairs 2, Tel 029 20823157, e-mail jacqueline.brown@wales.gsi.gov.uk.
- Evaluation and Monitoring of Current Structural Funds programmes: Susan Denman, Wales European Funding Office, Tel 029 20823943, e-mail susan.denman@wales.gsi.gov.uk.
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Further Reading

- EUR-01-02 (p.5), paper discussed by the European and External Affairs Committee on 12 February 2002.

- Commission reports can be accessed on the Inforegio Service: www.inforegio.cec.eu.int (e-mail regio-info@cec.eu.int; tel: +32 2 296 0634)

Annex A

Analysis of the First Progress Report

1. The report notes that discussions on the future cohesion policy are far

from over, particularly at the **national** level. Although Member State Ministers made preliminary statements of their position at the informal Naumur ministerial meeting last July (the DTI Minister, Alan Johnson MP attended), these tended to be at a very general level. However, Spain, which now holds the EU presidency, has possibly been the most vocal Member State to date, with Germany, Netherlands and Italy also commenting publicly. The progress report does not suggest that any decisions about post-2006 have yet been taken. The report confirms that concrete proposals to the European Parliament and the Council of Minister will be made only when the Third Report is published at the start of 2004. The financial package for post 2006 will be put forward by the Commission in the second half of 2004.

2. The progress report also mentions that 3 seminars will take place in

Brussels in 2002: one at the end of May dealing with territorial themes; one shortly after dealing with horizontal themes; and a third in the second half of the year, dealing with implementation and management of programmes.

3. The role of the regions is considered in the report, the Commission noting the calls for it to have more direct contact with local and regional players.

4. The report notes the European Parliament's interest in the Second Report, with its opinion on the report (the Musotto Report) to be adopted in February. It also records the Committee of the Regions' (CoR) response: CoR urged that there should be no dramatic withdrawal of structural funds for current recipients if they still needed support post-2006, and that the particular needs of geographically disfavoured regions needed to be addressed.

Situation and Trends

5. The report confirms that enlargement whether to 25 or 27 will be

accompanied by a significant drop in per capita GDP and by increased disparities between regions. However, the exclusion of Romania and Bulgaria means the disparities will be less pronounced, with a narrower gap between the EU-15 and the new states. The report suggests GDP per inhabitant would drop by 18% if Romania and Bulgaria were to join, but by 13% without them.

6. Employment; general improvement in the EU-15, but adjustments being made in candidate states means they lost around 600,000 jobs in 2000 compared with 3,000,000 job creations across the current member states.

7. The Commission does not predict a reduction in the earnings and

employment discrepancies between the EU-15 and the candidate states even in the longer term. The report flags up the prematurity of making any predictions about economic performance while world economic recovery and the impact of the single currency are unknowns, but notes its figure of 1.7% EU growth in 2001, compared to 3.3% in 2000.

8. In candidate countries, regional growth has been most marked in Poland, the Czech Republic and Slovenia, Slovenia being the only one of these 3 where job numbers increased. Social cohesion has been put into the context of the following challenges: identifying the true scale of regional labour market disparities, post-enlargement; skills requirements; continuing inequality between the sexes, etc.

"L'Etat du Débat"

9. The Commission comments on the success of the May 2001 Cohesion

Forum and on the numerous written submissions made by national and regional governments and other interests. It notes the Committee of the Regions' and European Parliament's interest in the report, concluding that cohesion has a central place in EU policy, which subsequently is a "catalyst" for debate at all levels across Europe.

10. Good management and efficiency are signalled as key contributors to a

credible and effective cohesion policy. The report also underlines that the Lisbon priorities will continue to be a key focus for cohesion policy (more and better-quality jobs, social integration, equal opportunities, information society).

11. Responses have led the Commission to draw the following interim

conclusions:

- Cohesion policy should continue to focus on the least-developed regions, and GDP per capita should remain the key indicator used, as is the case now for Objective 1.

- While there was general agreement that new members would need hefty amounts of aid, the needs of **current Objective 1 recipients**, ie those that would lose Objective 1 status by dint of their relative position in the GDP league table increasing above 75% in an enlarged EU, were also underlined. The Commission notes in particular the needs of ultra peripheral regions.
- The report notes the call for attention to the needs of urban areas and areas undergoing economic restructuring, as well as those with natural geographical handicaps, and cross-border areas. There are calls for assistance to be more decentralised.
- The need for EU programmes to add maximum value to any activities that member states could achieve alone is also noted. Regional networks are suggested.
- The report also notes that comment on the Second Report also called for regional disparities to be taken more systematically into account in the development of other EU policies, in particular CAP, transport, energy, competition, environment, R&D.

Annex B

COMMENTS ON COHESION REPORT TREATMENT OF REGIONAL DISPARITIES IN GDP PER HEAD

How are the figures calculated?

1. The disparity figures given in the Second Report on Economic and Social Cohesion are based on GDP figures at NUTS 2 level (i.e. in Wales this means, West Wales and the Valleys and East Wales).
2. The figures are those provided to Eurostat by each national statistical office (Regional Accounts within the Office for National Statistics in the case of the UK), but the figures are adjusted by Eurostat for purchasing power and are expressed in purchasing power standards (PPS) rather than national currencies.
3. The disparity measure for each Member State is calculated by taking the standard deviation (a recognised statistical measure of variation) of the GDP per head in PPS across NUTS 2 areas. To

account for the different sizes of NUTS 2 areas the calculation is population weighted. This means that, for example, an area with a small population which is an outlier in terms of GDP per head has less impact on the disparity measure than a large area with the same GDP per head would have.

Factors affecting comparability

4. GDP for NUTS 2 areas is calculated on a workplace basis, i.e. it is derived from those working in the area rather than those living in the area. Thus commuting can have a large impact.

- An area with large net out-commuting would have lower GDP per head (of resident population), with everything else being equal, and an area with large net in-commuting would have a higher GDP per head.
- The definition of the NUTS 2 boundaries can therefore have a large impact on the variation in GDP between areas, depending upon net commuting between the resultant areas.
- Within a given Member State, making the areas smaller would tend to increase the level of net commuting for an area. This would then tend to add to disparity in GDP per head.
- The effect of the definition of NUTS 2 areas is well illustrated in Table 3 of the statistical annex to the Progress Report. The disparity figure for the UK rose from 18.3 in 1994 to 31.5 in 1995, but this was almost entirely due to splitting the London NUTS 2 area into inner and outer London (the GDP per head index for London in 1995 was 139, while inner London was 230 and outer London 82).
- Differences in the level of commuting at NUTS 2 level between Member States will have a major impact on the comparability of the disparity measure between Member States.

5. A standard deviation will be large for a combination of two reasons; large variation in the figures and/or large figures. This means that Member States with GDP per head generally close to or above the EU15=100 average would have larger standard deviations than those with relatively low GDP per head, everything else being equal. This is also an issue over time where the average level of GDP per head in a Member State increases significantly. If the average GDP per head increased by 50 per cent over a period then, if the relative disparity remained the same, the standard deviation would increase by 50 per cent.

What might be done to improve comparability?

6. GDP could be expressed per head of employment, working in the NUTS 2 area, or with some adjustment made for the effects of commuting. The first option would be the simplest in principle.

7. A standard statistical measure of variation is the standard deviation divided by the average. For the case of GDP per head, the national average figure could be used (e.g. overall UK GDP index for the UK disparity measure) as this would be a recognisable number. This would go some way to improving comparisons between Member States and would allow proper comparisons over time.

Implications of this analysis on the measurement of the effectiveness of structural funds

8. The conclusion one could draw from this analysis is that the disparity measures are not sensitive enough to properly assess the effect of structural funds. Taking the UK as an example; there are 37 NUTS 2 areas. If both West Wales and the Valleys and Merseyside increased GDP per head from just over 70 (EU15=100) to 90 then, if nothing else changed, the disparity measure for the UK would hardly decrease (down about 2 per cent on its existing value). This magnitude of change is well within the margin or error of the GDP figures themselves.

9. A direct examination of GDP per head in areas receiving funds, compared to national and EU15 averages, might be found to offer a more appropriate measure. Whatever measure is used, Welsh Assembly Government statisticians believe the issues of causality will remain a consideration. Nonetheless, for Member States with a large proportion of NUTS 2 areas receiving structural funds the disparity measure should provide useful information.

10. Officials will discuss these issues with DTI.