

Date: 12 December 2002
Time: 9.00am – 12.30pm
Venue: Committee Room 1, National Assembly for Wales, Cardiff Bay
Title: Future of the Structural Funds

Purpose

1. The paper provides Members with a report on the Assembly Government's recent seminar on the future of the structural funds. It is a paper for information.

Summary/Recommendations

2. The seminar was held in the George Hall, Swansea, on 18 October. The First Minister spoke at the event, which was attended by representatives from a wide variety of organisations in Wales, including Assembly Members and Councillors.
3. Other speakers included officials from the Department of Trade and Industry's Regional Policy Directorate, who outlined the UK Government's proposal shortly to launch a consultation exercise to help inform the development of a UK Government position on the future of the funds.
4. It is intended that the findings of the seminar will help inform the First Minister when he attends a meeting in Brussels of a structural funds forward studies group, led by Commissioner Michel Barnier, in January.

Indicative Timetable

UK government consultation exercise	winter 2002-03
Commissioner Michel Barnier to chair meeting of Regional First Ministers in Brussels; First Minister to attend	February 2003
Commission to publish second update on the Second Report on Economic & Social Cohesion	[January] 2003
Third Commission seminar on the future of the structural funds (simplification)	early 2003, date tbc
Commission to publish Third Report on Economic & Social Cohesion, containing firm proposals for post-2006	Second half 2003

Compliance

5. 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."

6. 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.
7. There are no finance issues arising from this paper.

Contact names

8. Structural funds post-2006: Jackie Brown, European and External Affairs Division, ext 3157. jacqueline.brown@wales.gsi.gov.uk.

REPORT ON A SEMINAR ON THE FUTURE OF THE STRUCTURAL FUNDS IN WALES

**HELD AT THE GEORGE HALL, GUILDHALL,
SWANSEA**

FRIDAY, 18 OCTOBER 2002

**REPORT ON A WELSH ASSEMBLY GOVERNMENT SEMINAR ON THE FUTURE OF THE
STRUCTURAL FUNDS**

Held at the George Hall, Swansea, on Friday, 18 October 2002.

Introduction and summary

1. The Welsh Assembly Government's European & External Affairs Division (EEAD) organised an informal day-long seminar to provide an opportunity for discussion among stakeholders about the future of the structural funds. Speakers included the First Minister for Wales, Rhodri Morgan AM, and European regional policy experts from Wales and elsewhere in the UK (see [Annex A](#)). Around 60 invitees attended the session, among them Assembly Members, Councillors, local government and ASPB officials (a list of attendees is at [Annex B](#)). The day's discussions focused on the importance of partners in Wales working together to achieve the best for Wales in an enlarged EU, though no firm conclusion was drawn on whether stakeholders thought this should be based upon a continuation of the current degrees of intervention by the EU in Welsh regional policy. Attendees underlined the wider importance of the structural funds through the partnerships created and the innovatory approaches to regional policy development that they could foster. It was noted that the position of the Welsh Assembly Government and other stakeholders would no doubt evolve as the EU underwent major political and administrative changes.

Overview of Presentations

2. Welcoming delegates to the seminar, Gary Davies, Head of EEAD, explained that it was important for the Welsh Assembly Government to hear views from partners in Wales if the Assembly was to help shape the UK, and ultimately the EC, agenda on future structural and cohesion funds regulations. This was supported by the seminar's facilitator, Gareth Williams, who stressed that the purpose of the day was to consider the needs of Wales post-2006 rather than to focus overly on current programmes.

3. First Minister for Wales Rhodri Morgan addressed the seminar, thanking key speakers, and setting the debate on the future of the structural funds in the context of the challenge of EU enlargement. He explained that the purpose of the day was to offer an opportunity for attendees to share their views, however tentative. He noted the current immense changes taking place within the EU, industrial, administrative and political. The First Minister underlined the importance of a dialogue between the regions as well as that between regions and member states, noting that he had been invited by Commissioner Barnier to attend a meeting of regional heads early in the new year. The First Minister said it was important to know what the emerging views of Wales stakeholders were, though positions would develop as time went by, thus underlining the importance of continuing discussion on these issues.

Department of Trade & Industry

4. John Neve and David Rawlins, of the DTI Regional and Devolution Policy Directorate, summarised the current UK government position. John Neve explained their Ministers' role in leading on the development of a UK position, which involved seeking a broad range of views from stakeholders across the UK. To this end, a consultation exercise would shortly be launched by DTI. Some of the fundamental questions to be addressed were:

how the structural funds could better address the Lisbon agenda

how to improve the effectiveness of the structural funds and better evaluate their impact; and

how to reduce the bureaucracy surrounding the structural funds.

5. David Rawlins then gave a presentation that illustrated the relative position of the UK in an enlarged EU using figures based on an EU of 27, thus including Romania and Bulgaria though these were omitted from the Commission in its most recent update on cohesion policy, (reference: COM(2002) 46, 30.1.02). The presentation also highlighted the differences between regions *within* the UK. Of the present Objective 1 regions in the UK, only Cornwall looked likely to retain eligibility post-2006 under the current criteria, though EU-wide the continued application of those criteria would see the population covered by Objective 1 leap from 84 million in the EU-15 to 183 million. He also emphasised that as well as enlargement, other changes that could influence the future shape of the structural funds included the 2004 Intergovernmental conference and the new Commission, to be appointed in 2004. Nonetheless, DTI hoped that agreement on the post-2006 structural funds ("Agenda 2007") would be reached by the end of 2005.

6. DTI highlighted the Netherlands as the only member state to set out its position firmly at this stage. This was based on structural funds going only to member states with GDP lower than the EU average, leaving member states then to deal with their own poorer regions. In contrast, the Commission was said to want structural funds to continue to be available to all member states but with a greater emphasis on the poorest regions. The question of new member states' capacity to absorb high levels of structural or cohesion funds was also raised.

7. Following the presentation, delegates asked about reform of other EU policy areas. It was thought that better synergy was needed between, for example, the state aids régime, CAP reform and regional policy. The question was also raised of whether the overall level of EU funds devoted to the structural and cohesion funds should be raised from the present 0.45% of EU GDP and, if it was, what the source of the increase would be. There was a discussion around whether straightforward "renationalisation" of the structural funds was being considered (DTI confirmed that consultation would allow stakeholders to comment on this as one of a number of possible options). One delegate noted that alongside questions of finance, the symbolic importance of the structural funds and the opportunities they had brought for

innovative approaches to regional policy-making should be taken into account. The role of the funds in leveraging in private sector funds was mentioned a number of times during the seminar.

8. In response to a question about a possible reduction in the number of funds, DTI pointed out that ERDF and ESF were the responsibilities of different Directorates-General within the Commission, and there might be a long way to go before any consideration was likely to be given to a merger of these two funds.

Centre for Strategic and Evaluation Studies

9. Jack Malan, a partner in CSES, set out a personal view of some of the key issues for stakeholders in Wales to consider and offered some thoughts on the possible future direction of the structural funds. While commenting on the need to learn from past and current programmes, he noted the difficulty of measuring "Community Added Value", in other words measuring the positive outcomes of the structural funds, such as their use to foster a more strategic approach to economic planning and other non-financial gains. His assessment was that structural funds had made (and were making) a significant contribution to regional development, but Wales' economic performance still remained way behind that of the UK as a whole. Negative aspects of the funds were perhaps the bureaucracy, the complex match funding arrangements and flaws in some of the smaller programmes – some Objective 2 areas in particular.

10. In broad terms, Jack Malan explained that the last decade had seen a shift in the design of structural funds programmes away from infrastructure development towards the productive environment. This reflected the reduced need for projects that dealt with dereliction / industrial decline and an increased recognition of globalisation and the development of ICT. While he agreed with the general view that the future of Objective 1 with the same focus as now (the poorest regions across the EU) was certain, the signs were that a reworked Objective 2 would involve greater flexibility for national, regional and local priorities to be addressed.

11. In Wales, Jack Malan thought the weighting of priorities was well-judged and that the strategic direction of the Objective 1 and 2 programmes was appropriate to the needs of Wales, but he emphasised the need for projects that were fully directed towards achieving the strategic aims. His experience was that the most successful programmes, EU-wide, tended to be in regions that embraced quality of life and sustainable development as overarching objectives, and where a diversity of interests were involved in programme direction, with administration devolved where possible. Future programmes, he thought, would need to address the low point of departure vis à vis other UK regions, economic inactivity as a major constraint to Wales' economic performance, and the potential to use the structural funds to tackle social exclusion. Projects destined to address these issues might have to be based on a smaller structural funds allocation than in past programmes but nonetheless, their lower relative cost (compared to infrastructure development) might allow good outcomes for less

money.

Welsh Local Government Association

12. Tim Hooper set out some preliminary thinking on behalf of local government in Wales, calling for simplification and greater flexibility in future programmes. The WLGA would like to see the Commission's regulatory role decrease, with the Commission taking a more facilitative role. The Association urged the Assembly Government to use all channels available, both through relations with the UK Government and through the Committee of the Regions and other regional associations, as well as through the Assembly's Brussels office. A copy of an informal paper produced by the WLGA is at Annex C.

Education and Learning Wales, ELWa

13. Teresa Holdsworth, called for use of regional policy to address the skills gap, given predicted widening of the breach between "knowledge-rich" and "knowledge-poor" regions. Investment in people should be a priority given the benefits to the economy of equipping the workforce to meet business needs, so structural funds should support activities that reduced the risk of social exclusion. Stressing a point made by others during the day, Teresa commented on the importance of evaluation of current programmes in guiding future decisions.

Wales Council for Voluntary Action

14. Phil Fiander raised the question of whether partners should be more ambitious in using the structural funds to address national priorities in Wales, such as strengthening the links between the structural funds and the ten-year Communities First programme. He thought the use of the structural funds to address thematic priorities, such as R&D, the environment and the knowledge economy, should increase, with good use made of the Community Initiatives to explore ideas that might then be mainstreamed post-2006.

Summary

15. Summarising the day, Gareth Williams commented that discussions had been wide-ranging and it had been very helpful that delegates had focused on the broader issues around the structural funds. What all seemed to agree on was that Wales would continue to need public funding for regional development after 2006, and the debate over the future of the structural funds was an opportunity to consider the question of where the money should best come from in the future; that it was essential to make the most of the current programmes; and that close attention was needed to the design of future programmes to achieve balance and added value, minimise bureaucracy and capture best practice. He closed the day's discussions, thanking speakers and suggesting that the more that Wales could speak with a

shared voice on its needs for post-2006, the better-placed it would be to achieve its objectives.

European & External Affairs October 2002

Annex A

List of Speakers

Rt Hon Rhodri Morgan AM

John Neve, Director of Regional Policy & Devolution Directorate, Department of Trade & Industry

David Rawlins, Assistant Director, Regional Policy & Devolution Directorate, DTI

Jack Malan, Partner, Centre for Strategic and Evaluation Studies

Tim Hooper, European Officer, Welsh Local Government Association

Teresa Holdsworth, Head of European Policy & Programmes, ELWa

Phil Fiander, Head of European Affairs, Wales Council for Voluntary Action

Facilitator

Gareth S Williams

Annex B

Attendees

Rt Hon Rhodri Morgan AM, First Minister for Wales

Christine Chapman AM

Val Lloyd AM

Betsan Caldwell, Wales Development Agency

Councillor Ronald A Hughes, Leader Conway County Borough Council

Mr Phillip Davy, Caerphilly County Borough Council

Mr Robert Gough, Caerphilly County Borough Council

Nick Bennet, Special Adviser to the Deputy First Minister, National Assembly for Wales

Dr Huw Onllwyn Jones, Welsh Language Board

Roger Barnett-Evans, Director of Development, Pembrokeshire County Council

John Allen-Mirehouse, Councillor, Pembrokeshire County Council

Howarth, David, Wales European Funding Office

Adele Cheetham, Head of European Unit, Cardiff County Council

Neville Davies, Head of European Policy, Carmarthenshire County Council

Michael Jones, Policy Officer (European Affairs), Vale of Glamorgan Council

Lynda Attwell, WEFO – Policy & Strategy

Phil Gray, WEFO

Susan Denman, WEFO

Alison Sandford, WEFO

Sian Wilkins

Deputy Clerk / Economic Development Committee, National Assembly for Wales

John Grimes, Clerk, Economic Development Committee, National Assembly for Wales

Damien O'Brien, Welsh Assembly Government, Economic Policy Division

Rachel Jones, Special Adviser, National Assembly for Wales

George Causley, Principal Officer – Europe, Neath Port Talbot County Borough Council

Derek Vaughan, Cabinet Member for Economic Development, Neath Port Talbot County Borough Council

John Lambert, Environment Agency Wales

Peter Mortimer, Regeneration Resources Manager, Rhondda Cynon Taff CBC

Jeremy Wright, Head of Econ. Dev. Services, Powys County Council

John Thompson, County Councillor, Powys County Council

Glenn Vaughan, Wales European Centre

Lynette Thomas, Wales European Centre

Helen Bell, The Wales Office

Manon Philips, The Wales Office

Paul Blackburn, Wrexham County Borough Council

Allan Lewis, Assistant Director, Ceredigion County Council

Ray Quant, Councillor, Ceredigion County Council

Lisa Jones, European Projects Officer, Bridgend CC

Nigel Smith, European Officer, Newport CC

Dennis Owens, Councillor & Executive Member for Economic Development & Regeneration, County Borough of Blaenau Gwent

Peter Slater, Director of Environment & Development, County Borough of Blaenau Gwent

Clare Owen Evans, European Affairs Manager, Newport City Council

John Jenkins, Deputy Leader, Newport CC

Chris Rickets, Arts Council for Wales

Rosie Edwards, ACW

Rebeccah Lowry, Funding and Development Manager, Flintshire County Council

Roland Evans, Swyddog Polisi Ewrop / European Policy Officer, Cyngor Gwynedd Council

Gwyn Evans, European Officer, Pembrokeshire County Council

Lee Elwell, Senior European Officer, Wales Tourist Board

Annex C

Freedom to deliver – WLGA proposals for EU cohesion policy post 2006

1. Role of Welsh local government

Welsh local government is uniquely placed to contribute to the debate on future EU Cohesion policy.

Welsh authorities continue to perform key roles in implementing European programmes at the local level, and many have over 10 years experience. Specifically, all local authorities are currently involved in:

- Targeting funds strategically through local action plans
- Encouraging the development of high quality projects
- Providing information and advice on programmes
- Providing match funding

Welsh local authorities also have local democratic mandates, have a legal duty to promote the economic, social and environmental well-being of their communities, and have a recognised community leadership role.

2. Economic, social and territorial cohesion – key facts about Wales

Wales is an economically developing region within the United Kingdom, one of the more prosperous EU member states.

Geographic and demographic characteristics

- Wales has a population of 2.9 million, and a population density of 141 people per square km. However, this latter figure ranges from 2,317 people per sq km in Cardiff to 24 people per sq km in Powys.
- Wales has extensive rural areas and a high quality environment. A fifth of the total area of Wales lies within a national park.
- Wales has a unique culture and heritage, and as a result has developed a major tourist industry.

Recent history of Welsh economy

- The Welsh economy has experienced major structural changes in recent decades, and this process continues today. Over the past 30 years, a net transfer of around 200,000 jobs, out of a workforce over just over £1 million, has occurred from heavy industries to more modern manufacturing and service industries.
- Rural areas continue to undergo a transition from agricultural to more mixed economies, and face problems of low income and outward migration of young people.
- Relative to the rest of the UK, Wales has been particularly successful in attracting inward investment.

Current position

GDP

- Wales' GDP per head has remained at around 80% of the EU15 average over the last decade
- Wales contains one NUTS 2 area at 70% of the EU15 average, and five NUTS 3 areas at 70% or below the UK average.
- Pockets of deprivation at ward level

Labour market

- Wales has an unemployment rate of 5.7%, compared with an EU figure of 7.6% and a UK figure of 5.1%. However, peripheral areas and areas undergoing industrial transition continue to experience much higher rates of unemployment
- Wales has high rates of male, female and youth unemployment relative to the rest of the UK
- Wales employment rate stands currently at 69.5%, which is one of the lowest figures in the UK. However, this figure is between 50%-60% in several South Wales valleys.

- Wales has one of the lowest economic activity rates within the UK, which is explained by high levels of long term sickness. This figure is as high as 35% in the South Wales valleys.
- Most areas of Wales continue to experience net outward migration of 16-24 year olds, with rural areas particularly affected.
- The Welsh workforce suffers from a lack of basic skills in numeracy and literacy compared with England.

Economic structure

- The Welsh economy suffers from a lack of high value added financial and business services and a high dependence upon the public sector. In addition, over 50% of businesses are highly dependent on agriculture in a number of rural areas.
- Wales also suffers from a lack of successful small and medium sized enterprises
- Research and Development expenditure in Wales, as a proportion of GDP, compares favourably with the rest of the UK.

Infrastructure

- Despite good road and rail transport links from North and South Wales to the rest of the UK, north-south links are very poor
- Use of Information and Communications Technology by businesses is lower in Wales compared with the rest of the UK.

3. **Contribution of structural funds past and present**

Over the past decade or more, European Structural Funds have made a significant and varied contribution to disadvantaged areas of Wales. Whilst many of these areas have managed to make considerable progress in improving economic competitiveness and restructuring, the above analysis shows that a number of resilient and deep-seated problems still need to be addressed in order to deliver sustainable prosperity and strengthen cohesion between Wales and the rest of the UK and EU.

In summary, these key problems are:

- Insufficient high value industrial and service sector activity
- A lack of entrepreneurial activity and strong SMEs
- High levels of long term sickness in the workforce
- Outward migration of young educated people from rural areas

[show evidence that these problems are long term and structural)

Experience has shown that such genuinely structural problems require long term and, often, innovative policy responses. In our view, cohesion policy is ideally suited to tackling such problems.

[insert definition of 'structural'?)

4. Proposals

Principles

Welsh local government fully recognises the need to concentrate future structural fund support on accession states of Central and Eastern Europe which will have the greatest development needs. Structural funds have given Wales a unique opportunity to become more economically and socially cohesive with the rest of the Union, and it is only right that accession states should be given a similar opportunity in future.

However, a number of strong arguments remain for the continuation of EU cohesion policy across the *entirety* of an enlarged European Union:

- Need for cohesion policy for all
- Economic and social cohesion between countries, regions and localities across the Union is vital in spreading the benefits of European Union membership to and for fostering solidarity among European citizens.
- Whilst all spheres of government have a responsibility to promote cohesion, the European Union provides an effective mechanism for ensuring that all countries contribute equitably to the goal of cohesion and that money is redistributed to those parts of the Union where need is greatest.
- This responsibility is enshrined under Article 158 of the European treaties, and needs to be reinforced in the context of the current debate on the Future of Europe.
- It is particularly important that areas within the current EU15 where significant disparities remain after 2006 do not experience a dramatic reduction in support as a result of changes in their relative position within an enlarged Union.
- Contribution of previous cohesion policies

[insert experience of cohesion countries – Ireland, Greece, Spain, Portugal]

- Long-term and innovative strategies to combat structural problems

- The type of deep-rooted problems that underpin economic and social disparities across the Union can often only be tackled effectively by pursuing long-term and innovative strategies. By providing meaningful amounts of funding over a six-year time-scale, European programmes have made such strategies possible. Domestic funding, in contrast, has been typically shorter term and governed more by political constraints.
- Compensating for the effects of globalisation
- The ability of national governments within the EU to maintain autonomy in monetary and fiscal policy has been greatly constrained by economic and monetary union. Structural funds have a key role to play in the future in compensating for a one size fits all economic policy framework. Globalising trends such as greater fluidity of international capital have in turn added to these constraints.
- Implementing EU-wide policies
- EU cohesion policy serves as an important redistributive mechanism for ensuring the effective and smooth implementation of EU policies across the Union. Any renationalisation of cohesion would render the Union's ability to pursue pan-European policy objectives less effective, as the Union would become wholly dependent upon certain national governments for compliance. In the context of the Future of Europe debate, a European Union deprived of its means to act would become even less relevant in the eyes of its citizens.

However, EU cohesion policy requires urgent modification in a number of key respects:

- Greater freedom
- There needs to be greater flexibility for European funds to be applied to regional and local priorities, within a loose framework of European priorities.
- Decisions on the selection of areas eligible for non-Objective One funding should be taken wholly within Member States
- Decisions on programming and management arrangements should be taken wholly within Member States
- Local, community-driven actions need to be given greater priority within programmes
- Greater targeting of resources
- EU cohesion policy should be focussed on achieving the themes of the Lisbon agenda at appropriate spatial levels
- Non-Objective One funds should be allocated to eligible areas on the basis of robust national indicators

- Minimum aid intensities are required to avoid resources being spread too thinly?
- Greater policy integration
- Structural fund programmes need to be more internally coherent, primarily by establishing closer links between current Objectives and incorporating current Community Initiatives into mainstream Structural Fund programmes
- A more consistent approach to EU regional development policy is required at European level, with a particular need to strengthen links between structural funds, CAP, transport policy, R&D policy and competition policy. However, good progress has been made in pursuing cross-cutting themes such as sustainable development and equal opportunities within structural fund programmes.
- European money needs to be applied seamlessly to development objectives at national, regional and local levels. Greater synergies can be found through integrating European and domestic funding programmes.
- Greater streamlining and simplification
- The number of Objectives and Community Initiatives needs to be reduced further in order to reduce bureaucracy and simplify programme delivery.
- European money should be allocated to regions up front in the form of single pots from a central point within the European Commission

Lagging areas

- Objective One support needs to remain in order to ensure that the bulk of structural funds are applied to those areas of the Union with the most serious economic and social needs.
- The use of NUTS 2 areas for defining programme areas should continue as an appropriate middle way between the need to reach large numbers of people and target resources.
- The criteria of GDP per capita is the most accurate EU wide indicator of economic and social cohesion, and therefore should continue to be used to select eligible areas. Areas with a GDP per capita of under 75% of the EU average should continue to be eligible for Objective One support.
- The amount of funding for each eligible area should be decided on the basis of population, and the size of the regional development disparity as at present
- Objective One should continue to be funded through ERDF, ESF, EAGGF and FIFG funds
- There should be provision for programming and delivering Objective One funding through single regional development strategies, subject to rigorous and inclusive management arrangements being in place within regions

- Subject to adhering to an EU framework of thematic priorities on jobs and competitiveness, there should be complete programming flexibility at a regional level
 - Incentives to encourage trans-regional and innovative working should be mainstreamed within the programme, rather than being available under separate Community Initiatives.
 - Minimum aid intensities?
- Transitional provision
- Transitional support in line with past precedent should be available for current Objective One regions whose GDP per capita has risen above 75% of the EU15 average in 2006.
 - A special package of support should be made available for current Objective One regions whose GDP per capita remains below 75% of the EU15 average in 2006. This package should initially be at the level of full support, and be progressively reduced in line with improvements in economic performance.
 - In determining the level of such packages, priority should be given to areas that have only experienced a single period of Objective One funding, to ensure that the efforts of past programmes are not jeopardised.

[insert process diagram]

Smaller areas with structural problems

- Funding support should continue to be available to assist deprived areas within more prosperous member states in tackling structural problems underpinning low competitiveness and employment rates.
- The current Objective Two and Objective Three programmes should be merged into a single Objective Two programme, for this purpose, which would be funded by ERDF, ESF, EAGGF and FIFG funds to reflect the range of problems facing such areas.
- A menu of priorities would be agreed at European level. To best reflect the Lisbon agenda, it is suggested that the following horizontal priorities are used:
 - enterprise and innovation
 - knowledge economy
 - job creation
 - education and training
 - social exclusion
- A menu of territorial areas to be targeted should also be specified at European level. These should be:
 - Urban deprivation
 - Rural development

- Industrial restructuring
 - city region development
 - geographical handicaps
- In addition, a list of cross-cutting themes would also be agreed at European level. It is suggested that these are sustainable development and equal opportunities.
- Objective Two funds would be allocated to all EU countries on the basis of population, taking into account the level of Objective One support allocated to them (national ceiling placed on total receipts). The purpose of using population to allocate aid between member states would be to ensure an equitable coverage of resources between countries. Use of indicators of need at European level are opposed due to the limited amount of reliable and meaningful data at this level. We would particularly oppose the allocation of aid on the basis of territorial indicators, as the geographical extent of such areas is hard to define, and such indicators may not be reliable proxies of economic need.

[insert examples of differential economic performance between areas with similar territorial characteristics across the EU)

- National governments, in conjunction with sub-national levels of government and civil society, would be responsible for selecting areas and allocating funding. There would be complete flexibility on the level of thematic and territorial targeting of resources and on the indicators used to allocate aid between regions, subject to adherence to one or more items from the European menu suggested above. There would be an option for European money to provide support for unforeseen circumstances, provided that there was relevance to the Lisbon agenda.
- The involvement of the European Commission would be limited to ensuring that funds were being targeted in accordance with EU menu, that national procedures for distributing aid were sufficiently objective, that thresholds for minimum aid intensities were being observed, that funds were being applied only where structural problems and the potential to overcome such problems could be demonstrated.
- Although precise eligibility criteria would be determined within each Member State, a number of suggested indicators are offered below for targeting aid both by theme and by type of territory:

Table A – by theme

Lisbon theme

Indicator

Promoting enterprise and the growth of SMEs	GDP per capita Number of VAT registered enterprises Number of small businesses
Promoting innovation	GDP per capita
Promoting use of ICT	DTI Connectivity Index
Creating more and better jobs	Employment rate Unemployment rate Long term unemployment rate (gender, age, ethnicity) Economic activity rates (gender, age, ethnicity) Training indicators
Improving education and training	Levels of basic numeracy and literacy
Tackling social exclusion	Economic activity rates (gender, age, ethnicity) Household income levels Limiting long term illness

Table B – by territory

Territory	Indicators
Urban	Population density Indices of multiple deprivation Educational attainment Crime levels Ethnic mix Economic activity rates Level of benefit claimants
Rural	Population density Migration Age structure Level of agricultural GDP and employment
City region	Economic relationship data (eg commuting)
Industrial restructuring	Level of industrial GDP and employment Economic activity rates Limiting long term illness Indices of multiple deprivation Educational attainment Crime levels Level of benefit claimants

Peripheral	Index of peripherality Climate Population density Migration Age structure Level of agricultural GDP and employment
Mountainous	Altitude Population density Population density Migration Age structure Level of agricultural GDP and employment

- Following decisions on fund allocation at the national level, receipts would be paid from the Commission directly to a democratically accountable Managing Authority at regional level responsible for ensuring the effective management of European funds across that region.
- To ensure that European money is delivered seamlessly with domestic funding at the regional level, we feel that it will not be necessary to have separate European programmes and managing arrangements. European funds should be delivered within the framework of a regional economic strategy, which would be steered by a broad partnership of regional stakeholders. In accordance with the White Paper on European Governance and the Second Cohesion Report, there should be European guidelines stipulating the involvement of local government and other sectors in exchange for European money.
- Funds should be delivered seamlessly through accountable regional project teams and local community planning partnerships. The precise local/regional balance would depend upon how funds were targeted within the regional economic strategy.
- The involvement of the European Commission would be limited to ensuring that management arrangements met minimum standards and the promotion of good practice.
- Incentives to encourage trans-regional and innovative working should be mainstreamed within the programme, rather than being available under separate Community Initiatives.
- **Transitional provision**
 - Transitional support in line with past precedent should be made available for current Objective Two areas that have converged sufficiently with the rest of the Union by 2006.
 - A special package of support should be made available to current Objective Two areas that have not converged sufficiently. (what figure?). Full support should initially be made available, with a progressive reduction depending upon economic performance in future years.

[insert process diagram]

Budget

- It is crucial that the future EU budget for cohesion is sufficient to provide support to current EU15 members, as well as accession states, for the reasons outlined above. Serious consideration should be given to increasing the size of this budget above the current 0.45% of EU GNP in order to meet this objective.
- Greater use of the European Investment Bank should be encouraged. Preferential borrowing terms should be made available to areas in receipt of structural fund support.

[Need to stipulate minimum aid intensities at EU level, or should that be left to regions?]

Policy integration

- CAP
- Given the size of receipts from the Common Agricultural Policy to rural areas, it is essential that reforms to the CAP and Cohesion Policy be conducted in tandem. There is a particular risk that current rural areas currently receiving both CAP and structural fund support could be significantly disadvantaged from changes to these policies.
- Agricultural diversification and rural development pose specific policy challenges at the European level. Whilst we argue that future Cohesion Policy should be focussed upon boosting jobs and competitiveness, a future CAP should centre on encouraging agricultural that is competitive, promotes animal welfare and conserves the environment, as well as boosting the competitiveness of wider rural economies. In our view, to shift resources from the CAP Second Pillar to Cohesion Policy would jeopardise the achievement of such aims and not be in the interests of European citizens.
- Rural Development Plans (RDPs) currently provide a mechanism for combining modulated CAP funding and domestic funding in support programmes for rural areas. RDPs need to be strengthened through greater modulation (as proposed in the Commission's recent proposals for the mid term review of CAP), and through greater programming flexibility. RDPs could provide an appropriate mechanism for applying structural funds in specific rural areas, in conjunction with a regional economic strategy. It is suggested that decisions on allocating future Objective Two money to rural areas at national level take account of the amount of support available to such areas from CAP modulation and national/regional budgets.
- State aids
- Although it was supposed that assisted area designations would facilitate economic development in lagging regions, uncertainty over the application of EU competition regulations has proved a major obstacle to the delivery of structural fund programmes.

The regulations have unfortunately served to stifle innovation and risk taking in the use of structural funds. (case study)

- We call for the retention of state aid intervention rates for areas currently receiving structural funds that will be denied future support by dint of statistics.
- There is an urgent need to simplify and liberalise current restrictions in order to facilitate regeneration programmes, particularly in respect of assisting small businesses and community based enterprises.

Delivery of funds

Welsh local government has experience of delivering several generations of structural fund programmes and is well placed to offer suggestions for improving the delivery of future cohesion policy. Over the last decade, much progress has been made in terms of establishing effective management arrangements and devolving decision-making to regional and local levels. However, much scope exists for delivering future policy in more simplified and devolved ways.

The four principles underpinning the Agenda 2000 reforms need to be revisited:

- Principles
- Concentration – decisions on the extent to which funds are targeted should be taken at national and regional levels for all Objectives
- Programming – the delivery of funds should be guided by a single regional economic strategy, rather than by separate programmes
- Additionality – the need to demonstrate additionality should remain a fundamental condition of structural funds
- Partnership – there should be a continuing requirement that structural funds are delivered through partnerships. However, to help ensure that partnerships are more dynamic, effective, and more able to involve private sector interests, there should be greater flexibility at regional and local level in deciding their exact composition.

In addition, greater emphasis needs to be placed on a number of additional principles:

- Subsidiarity – our proposals devolve further policy responsibilities to regions and member states. However, the delivery of funds within each region could also be more devolved. There is much scope for community-based partnerships established at the local level to play a significant role in delivering funds seamlessly within communities. (case studies - Carmarthenshire CPP, URBAN initiative)
- Management – Serious deficiencies remain in the running of programmes at regional level by Managing Authorities. National Governments should have responsibility for

ensuring that arrangements for programming and delivering funds are efficient and effective, with relevant authorities penalised for major deficiencies.

- Financial arrangements
- Single pots – a region would receive a single pot of all European structural funds allocated to it at national level. This would then be distributed in accordance with a regional strategy through democratic and inclusive means.
- programme approval – National governments would have responsibility for ensuring that the programming of funds and design of programmes was in accordance with EU regulations.
- Grant rates – grant rates would be decided at regional level
- Application process – spatial and thematic co-financing arrangements are proving effective in obtaining match funding for projects, and therefore should be encouraged in future. (case study – examples of community chests and key funds)
- performance reserve – regions should decide whether they wish to offer such an incentive
- N+2 – whilst this regulation may have encouraged the progression of programmes, there is a danger that poor quality projects may have resulted from pressure to spend money. We would welcome greater flexibility, especially through greater use of venture capital funds.
- Absorption limits – these should be dictated by the standard of governance arrangements in areas receiving funds. [insert Welsh experience – demonstrates importance of having satisfactory delivery arrangements – lessons for EE countries)