

Enterprise and Business Committee Inquiry into the draft legislative proposals for EU Structural Funds 2014-2020

Evidence from the Deputy Minister for Agriculture, Fisheries, Food and European Programmes

Introduction

1. This paper provides evidence to inform the Committee's inquiry into the draft legislative proposals for EU Structural Funds 2014-2020.
2. The Welsh Government has welcomed the European Commission's proposals, which were the subject of a written statement that I sent to members of the Committee on the 21 October 2011. The draft regulations published on the 6 October 2011 set out a clear vision for the future operation of European Structural Funds. The European Commission has made clear that it requires future Structural Fund programmes to deliver on the 'Europe 2020' objectives of smart, sustainable and inclusive growth, which complements many of the Welsh Government's policies and actions, as set out in our ambitious "Programme for Government".
3. Whilst agreeing with many of the principles driving the legislative proposals, we believe that some of the detail could be improved, in particular to increase flexibility and promote simplification. We are engaging positively and pro-actively with the UK Government and various institutions in the EU to seek clarifications and improvements to the proposals.

Implications of the new proposals for Wales

4. The Commission's draft regulations have provided a good starting point for negotiations. There are a number of aspects to the proposals which will be of particular interest to Wales and which present a number of opportunities and challenges.
5. The Welsh Government welcomes the Strategic Programming approach, with its greater focus on results, thematic concentration and more integrated funding options. We also look forward, early next year, to the European Commission's proposals for a Community Strategic Framework which will span the structural (ERDF, ESF), rural (EAFRD) and fisheries (EMFF) funds. We hope this framework will help to clarify the real opportunities to achieve meaningful integration of these funds.
6. The Welsh Government wants to ensure that the proposed Partnership Contract, between the Commission and individual Member States, offers genuine added-value. It will be vital that these contracts respect the differing institutional arrangements in each member state. In the UK, the contract will need to reflect the devolved arrangements for Government within the UK. This is important because, as a devolved nation, I want Wales to play a full role in delivering against commitments within the regulations; the Partnership Contract will need to recognise this role, as well as respecting differences in policy and approach, across the Devolved Administrations, to contributing to the delivery of the goals of Europe 2020.
7. The Welsh Government is supportive of the principle of thematic concentration, which will help ensure resources have a real impact at an EU level. Within this, however, we feel that the choices of priorities underpinning that concentration should be for Member States and Regions to decide. We are concerned that the proposals for concentration and ring-fencing within the regulations for both the ERDF and ESF are too prescriptive

and we are pressing for greater flexibility in this area which will allow programming choices to be identified by evidence of regional need and opportunity.

8. The Commission has clearly outlined its interest in Regions targeting urban areas, with the draft regulations proposing that at least 5% of the national allocation of ERDF resources should be spent on sustainable urban development in cities. Whilst recognising the role of cities and urban areas as a driver of economic growth, the Welsh and UK Governments both oppose this compulsory earmarking of funds. This particular proposal needs to be considered in the context of the Welsh Government's emerging thinking around the city region concept and the potential of this particular spatial approach to drive economic development. Given significant differences in territorial features, population and labour markets between Wales and other regions, any Welsh approach to urban development is likely to be very different to that adopted in other parts of the UK.
9. The scope of the ERDF and the ESF remains similar to that in the current programmes. In seeking to ensure maximum flexibility in programme choices we are opposing the significant ring-fencing requirements proposed by the Commission for both the ERDF (minimum amount for a dedicated Low-Carbon priority) and the ESF (minimum spending for social inclusion and tackling poverty priorities). This does not indicate that we would not want to prioritise those issues, but will believe that we should be able to make strategic choices based on evidence of need and opportunity within Wales. The current proposals also fail to recognise the cross-cutting nature of these priorities: Low Carbon activity will also be delivered through priorities such as research and innovation, sustainable transport, or climate change; social inclusion and reducing poverty will be reduced through employment and skills activity to increase participation in the labour market.
10. The Welsh Government recognises in particular the need to improve the effectiveness of investments. Conditionalities requiring Member States to provide evidence that they have the correct policy, legislative and economic frameworks in place to deliver effective EU investment could be a means of achieving this. However, we need to make sure that any future conditionalities are proportionate, are directly relevant to the investment concerned and do not infringe Member State competence or the principles of subsidiarity. It is not yet clear how the Commission's proposed macro-economic conditionalities would improve performance, and there is a risk that they could penalise those regions and Member States that need the funding the most. The Welsh and UK Governments are therefore seeking limitations to the use and application of the proposed macro-economic conditionalities.
11. The Welsh Government is a strong advocate of a robust performance framework against which to achieve effective monitoring and evaluation of structural fund investments; however, we have concerns about the type of programming that could result from the introduction of a performance reserve and the timing of any additional payment. The use of a performance reserve could lead to Regions opting for programming choices that lack ambition and innovation, in favour of 'easy-wins' through which to ensure that targets are readily met. Additionally, payment of the proposed performance reserve in 2019, as suggested in the draft regulations, would not allow sufficient time, being so close to the end of the programme period, to make good use of the additional resource.
12. In addition to seeking maximum flexibility to enable future programmes to be tailored to address the specific needs in Wales, another key priority remains the pursuit of greater programme simplification. The draft regulations have proposed measures aimed at simplifying current arrangements and processes, however these are counterbalanced by

a number of requirements for additional monitoring and reporting. We therefore retain a level of concern around whether the promise of simplification will materialise in practice.

13. The Welsh Government supports the position that the EU should demand high levels of financial discipline and probity associated with the funds it allocates and recognises the value of European Commission expenditure targets for effective financial management. We therefore support the continuation of these targets but welcome moves to make them better reflect the reality of programme spending (e.g. less spend at the very beginning of programmes).
14. The regulations encourage a greater role for Financial Engineering Instruments, which have been strongly supported by the Welsh Government. Wales has already been at the forefront of developing financial engineering instruments under the current Structural Funds programmes through pioneering of JEREMIE and JESSICA initiatives. We will explore the scope to extend the use of similar instruments in the 2014-2020 programmes.
15. In both cases – for ESF and ERDF – difficult choices will need to be made in respect of the objectives that residual funding (after earmarking requirements are met) should be directed towards, in order to secure the greatest impact from future investments. The emphasis and content of the Commission’s draft regulations provides a good starting point for the negotiations, which will need to be satisfactorily concluded before any future programmes can be agreed and subsequently implemented. Successful and early conclusion of these negotiations, together with those associated with agreement of the draft EU budget for 2014-2012, will be hugely important if Wales is to commence the implementation of new programmes and key strategic projects early in 2014.

Engagement with UK Government

16. The UK Government’s aim is to reduce the EU budget, particularly in wealthier Member States where its ultimate aim is to eliminate structural funds altogether. The Welsh Government view remains that Structural Funds should be available to the poorest regions, irrespective of Member State’s GDP, that some form of ‘transitional’ funding should be made available to regions growing out of Convergence funding, and that the budget needs to be adequate and appropriate to deliver the Europe 2020 priorities.
17. While there are clear differences in terms of the size and allocation of the EU Budget, there is a high degree of alignment between Wales and the UK Government on issues of strategic direction and policy. I am determined to negotiate the best possible programmes for Wales which will help deliver on our ambitious Programme for Government and make a significant contribution to attainment of the goals set out in ‘Europe 2020’.
18. The Welsh Government is widely recognised in the European Union as an exemplar in terms of fund management and innovative use of Structural Funds which could be a big asset for the UK as part of the negotiating process. With a likelihood that West Wales and the Valleys could qualify for the highest levels of support post 2013, it is vital that the Welsh Government has a genuine and meaningful involvement, with the other Devolved Governments, in developing and agreeing the UK negotiating position.
19. The Welsh national interest is best served by a UK that is at the heart of negotiations with the European Commission. However, it is also important that Wales’s voice is heard directly in Europe. I met with Commissioner Hahn earlier this year and have recently returned from a series of meetings in Strasbourg and Brussels where I met MEPs, including relevant European Parliament committee rapporteurs and the four

Welsh MEPs, and attended the General Affairs Council. I have also had a number of discussions with UK Ministers and officials and I will continue to work closely with all parties concerned to ensure that Wales has a strong voice over the future direction of travel.

Other key milestones

20. Partnership working across Europe, the UK, and within Wales will be key to the successful development and delivery of future programmes. In addition to working closely with key players at EU and UK level, I have established a European Programmes Partnership Forum with key strategic partners in Wales. The Forum, which will help consider the future direction and content of any new programmes in Wales, has already met twice to discuss the implications of the draft legislative proposals, the Welsh Government's approach to economic development, and the evidence base for the development of the new programmes.
21. On the 1 December 2011, I launched a 'Reflection Exercise' to provide partners and stakeholders in Wales with an early opportunity to help shape strategic thinking on the ways in which future European programmes can support sustainable jobs and economic growth. This reflection exercise, which spans not only future Structural Fund programmes but also rural EAFRD and EMFF programmes, does not constitute a formal consultation exercise on plans for the new programmes; this will follow later in 2012 when a clear strategic direction and draft proposals for operational programmes have been established.
22. A plenary debate on the legislative proposals for the Structural Funds and the "Reflection exercise", scheduled for January 2012, will provide an important opportunity for further debate on this important topic.