

European & External Affairs Committee

EUR(2) 02-06 (p.3)

Date: 9 March 2006

Venue: Committee Room 3, Senedd, Cardiff Bay

Title: Implications of the EU Budget Agreement: Competitiveness and Convergence

Purpose

This paper is to report back to the Committee on the outcome of the European Budget negotiations and the implications for future Structural Fund programmes.

Summary/Recommendations

Committee members are asked to note the issues highlighted in this paper.

Financial Background

The Council of Ministers reached agreement on the EU budget for 2007 – 2013 at its meeting in mid December 2005. This means we are now in a position to take forward detailed preparations for the next round of Structural Fund programmes. This paper outlines the arrangements for taking this work forward.

Under the European Council budget agreement, West Wales and the Valleys will receive a similar level of funding to the current Objective 1 programme (which is currently circa £1.3 billion over 7 years). This settlement is still subject to Inter-Institutional Agreement with the European Parliament and the European Commission and the final outcome will not be known for some weeks yet. However the main focus in the European Parliament is on research and development, and the Structural Funds elements are expected to remain as agreed in December.

The UK Government will decide in agreement with the Commission how to allocate Regional Competitiveness funding. Our officials are working with DTI officials to seek to maximise the resources available for East Wales. These discussions are taking place in the context of an overall reduction in UK resources of some 50% when compared with the current Objective 2 programmes with obvious implications for the funding available for East Wales. The next step is to consult on the criteria to be used in the allocation of Regional Competitiveness funding in the UK as part of the National Strategic Reference Framework consultation. Therefore the outcome of this process will not be known before the

early summer.

Wales will also continue to participate in various trans-national programmes, including a successor to the Interreg cross-border programme with Ireland. Once again the allocations for these programmes will take some months to determine. We know that the UK has received an increase in its allocation for cross-border programmes although this pot will need to be shared between more regions, as large parts of the south of England are now eligible to participate in programmes with France, Belgium and the Netherlands.

The Chancellor announced in his Pre Budget Report that our receipts from the EU will be treated as an addition to the Barnett block.

Match Funding Arrangements

Until agreement is reached with the European Parliament which will result in the finalisation of funding allocations and the level of grant intervention rates are determined, we are not in a position to know the match funding requirements for the new Programmes. However we have been highly successful in identifying match funding for the current Programmes and this provides every confidence that the required match funding will be available for the post-2006 Programmes.

Moreover the different structure of the next Programmes and the alignment with Assembly Government's priorities should help us to look at new and innovative ways of match-funding and co-financing projects that will streamline processes and reduce bureaucracy.

The arrangements for public and private match funding will be different under the new programmes. Only the UK and the Netherlands have levered in private match-funding to any great extent and it is the Commission's view that only public authorities can commit resources for the duration of the programme period (seven years). Private match funding will therefore not be shown in the overall financial tables for the programme, but will still be strongly encouraged at a project level. We would expect many projects to contain a significant portion of private match funding, for example, venture capital schemes and energy projects.

Priorities for Wales

The new programmes will be more focused on interventions which support sustainable growth and jobs, in line with the Lisbon and Gothenburg strategies. The European Council has agreed minimum targets for the proportion of Structural Fund expenditure which should be directly linked to Lisbon priorities (60% for Convergence and 75% for Regional Competitiveness) and the Commission is likely to press Member States to go significantly beyond these. This means that there is less scope for funding activities with more of a social focus.

The proposed Wales priorities were considered by the Cabinet Sub Committee on Jobs and Skills on 14

November 2005, and are set out in the Wales chapter of the UK National Strategic Reference Framework. A summary of the priorities outlined in the NSRF is provided at Annex 1. The NSRF provides an overall planning framework for the preparation of the more detailed operational programmes and was launched by the DTI for consultation on 28th February. The priorities in the Wales chapter are closely aligned with Wales: A Vibrant Economy, the Skills and Employment Action Plan 2005 and other key Welsh Assembly Government policies and strategies.

Future Programmes

The Commission has proposed streamlined arrangements for preparing the new programmes. These will be mono-funded programmes (funded either by ERDF or ESF) and programming will be at a priority level only (detailed measure level programming will cease). Under these new arrangements there will be 3 main Operational Programmes for Wales:-

- Convergence Programme for West Wales and the Valleys (ERDF) replacing that part of the current Objective I programme funded from the ERDF.
- Regional Competitiveness and Employment Programme for East Wales (ERDF) replacing the current Objective 2 programme.
- All-Wales Human Resources Programme (ESF) with ring-fenced allocations for each of the 2 regions – West Wales and the Valleys and East Wales. This replace that part of the current Objective 1 programme funded by the ESF and the Objective 3 programme

These priorities have been discussed with the External Stakeholder Group and the workstreams that are assisting us in the preparations for the new programmes. There will also be a separate cross-border programme with Ireland (ERDF) and we can participate in trans-national programmes covering North West Europe and the Atlantic Coast.

Timing

The aim is to prepare the new Operational Programmes over the coming months and to put these out for public consultation before being submitted to the Commission in the early autumn. The aim is to reach agreement before the end of 2006 so that programmes can commence on schedule at the beginning of 2007. External partners are closely involved in the preparation of the future programmes through the Post 2006 External Stakeholder Group and the five workstreams.

Implementation

Cabinet agreed in mid 2005 that future programmes should be implemented more strategically, primarily through fewer and deeper interventions which meet EU objectives for growth and jobs, while complementing Welsh Assembly Government policies and strategies. It was also agreed that greater use should be made of co-financing arrangements, dispersing EU funds alongside domestic sources of matched funding. In parallel with the development of the new programmes, WEFO is working closely

with partner organisations, Policy Departments and UK Government Departments (e.g. Jobcentre Plus) to identify potential strategic projects which can drive the implementation of the new programmes.

The principles which will guide the development of Strategic Projects are given at Annex 2. In addition to strategic projects, there will still be scope for some competitive direct bidding and commissioning actions by WEFO.

Update on External Stakeholder Group

Updates were requested at the previous Committee on the progress of the External Stakeholder Group (ESG). The ESG met in September and December 2005. The September meeting involved agreeing the terms of reference of the Group and in December the group looked at the latest text of the Wales chapter of the NSRF, the framework for Strategic Projects and various workstream reports.

The group met on 28 February 2006 to discuss financial planning, spatial targeting, complementary between Structural Funds and European Fund for Rural Development and European Fisheries Fund, Cross Cutting themes and the Strategic delivery framework.

State Aid Guidelines

The European Commission adopted the new Regional Aid Guidelines on 21 December 2005 determining the maximum levels of grant to industry. The final document contained only limited changes to the previous draft that had been the subject of formal consultation.

When the EU budget was agreed in December, the European Commission agreed that Assisted Area boundaries would be determined by the current Eurostat GDP data set, as with the designation of Convergence Programme areas. The result for Wales is that West Wales and the Valleys qualifies for the full Convergence Programme and also as an Article 87(3)a Assisted Area: the best possible outcome in terms of maintaining the ability to support investment in the area.

Additionally, the new guidelines confirm the range of criteria that Member States must now take into account in determining additional Article 87(3) c coverage. The four NUTS 3 areas of East Wales are all adjacent to a full Article 87(3)a area, and so fall within the criteria set by the Commission.

The DTI issued a consultation document on 15 February 2006 to provide UK stakeholders with an opportunity to influence the criteria and areas that are chosen to form these additional 'second tier' Assisted Areas. The consultation is due to finish on 19 April 2006, which will allow completion and presentation of the draft UK Assisted Areas Map to the Commission before the summer break. The map will then need to be agreed by the Commission in the autumn in readiness for implementation in January 2007. The consultation can be accessed from the DTI website at:

<http://www.dti.gov.uk/consultations/consultation-1593.html>

Retention of full Article 87(3)a status for the whole of West Wales and the Valleys is a significantly better outcome than had originally been envisaged at the start of the review process. The potential to argue now for additional Article 87(3)c status within East Wales was also not in prospect under the Commission's original proposals.

Officials are working closely with the DTI and Treasury in shaping the imminent UK consultation upon how additional Article 87(3)c areas should be determined and through which the UK Assisted Areas Map will be finalised.

Action for Subject Committee

To note the issues highlighted in this paper.

Rt Hon Rhodri Morgan, AM

First Minister

Annex 1: Proposed Priorities from draft National Strategic Reference Framework

The priorities proposed for West Wales and the Valleys are:

- Improving knowledge and innovation for growth - including R&D, entrepreneurship, business finance and sectoral development. (ERDF)
- Creating a favourable business environment - including transport, ICT, clean & renewable energy, environmental goods and services, environmental protection and improvement, waste, maritime & inland waterways (ERDF)
- Building sustainable communities - including business sites, urban and rural regeneration and community development (ERDF)
- Increasing employment and tackling inactivity – including tackling barriers to employment, childcare, promoting healthier lifestyles and promoting equal opportunities (ESF)
- Improving skill levels – including the transition from school to work, improving basic skills and addressing skills gaps. (ESF)
- Improving administrative capacity of public administrations and services – including service design, capacity building, increasing expertise, expanding electronic access, improving dialogue and co-operation

The priorities proposed for East Wales are more limited in their focus and are linked to:

- Building the knowledge based economy – focus primarily on R&D and innovation (ERDF)
- Enhancing the environment - includes community regeneration, clean & renewable energy, environmental goods and services, environmental protection and improvement and waste

management (ERDF)

- Promoting accessibility – includes integrated transport initiatives and ICT (ERDF)
- Increasing employment and tackling inactivity (same as for WW&V) (ESF)
- Improving skill levels (same as for WW&V) (ESF)

Annex 2 – Draft Principles for Strategic Projects

Strategic projects will be developed in accordance with the following principles:

- Strategic projects should be based on clear evidence of need and draw on evidence on the effectiveness of interventions.
- Strategic projects will ‘drive’ a key part of the programme strategy and have the potential to make a significant contribution to the achievement of programme targets.
- They will be national, regional (i.e. programme areas) or sub-regional projects, but in most cases the operations will be delivered at a local level. Local providers will be selected through open and competitive tender.
- Strategic projects will be managed by organisations in the public, voluntary or private sectors which have the necessary capacity to support effective implementation (including in respect of financial management, monitoring and audit control).
- They must demonstrate a commitment to partnership working, both during the project development and implementation stages, and be developed within a framework which is responsive to local needs.
- They should encourage demand led approaches.
- They should add value to existing provision
- Strategic projects will be of varying lifespan but the continuation of funding will be conditional on the achievement of milestones and other performance targets agreed in the context of project business plans. There should be scope for adaptation over the project period.
- In most cases, strategic projects will operate through co-financing or pre-match funding arrangements.
- They will encourage innovation.
- Evaluation plans for strategic projects must be agreed by the WEFO RME Unit at the outset.

- Appropriate exit strategies or strategies for ensuring sustainability should be agreed.