

## European and External Affairs Committee

Date: 25 March 2004  
Time: 09:00  
Venue: Committee Rooms 3 & 4, National Assembly Building, Cardiff Bay  
Title: Summary of issues emerging from discussion of reform of regional policy

### Purpose

1. This paper provides a summary of the issues emerging from discussions about reform of regional policy in the EU at the Committee meetings on 26 June 2003, 13 November 2003 and 26 February 2004.

### Action

2. Members are invited to consider the contents of this paper, which can be timetabled for detailed discussion at the Committee's first meeting after Easter.

### Background

3. The European and External Affairs Committee has held detailed discussions on reform of regional policy on three occasions:

- 26 June 2003 - Joint meeting with the Economic Development Committee. Discussed UK Government consultation on reform with John Neve and Neil Bond, Department for Trade and Industry and Mark Parkinson, HM Treasury.
- 13 November 2003 - Meeting held in Brussels. Discussed likely European Commission proposals on reform with Graham Meadows, Acting Director-General, Regional Policy - European Commission and Dimitrij Pur, Mission of the Republic of Slovenia to the European Union.
- 26 February 2004 - Joint meeting with the Economic Development Committee. Discussed Commission and UK Government proposals with Manfred Beschel, European Commission - Chef de l'Unité, DG Regio C1 - Ireland and the United Kingdom; John Neve and Neil Bond, Department of Trade and Industry and Mark Parkinson, HM Treasury

4. Following the meeting on 26 June, the European and External Affairs and Economic Development and Transport and made a joint response to the UK Government consultation on reform of regional policy. A copy of the response is attached at Annex A.

## Key Issues

5. The key points raised in the three Committee meetings are set out in the following paragraphs. In summary the major issues seem to be:

- It is not possible to measure the financial implications of either the UK Government or Commission proposal for Wales at present
- The negotiations on the overall EU budget would have a significant impact on the funding available for regional policy
- There are concerns about the longevity of a UK Government guarantee
- Support for statistically affected regions, into which category Wales is likely to fall, is currently only provided by the Commission proposal (the UK Government has been asked to confirm its position on this issue)
- The UK Government's proposal is informed by the desire to minimise the UK's net contribution to the European budget. This does not, necessarily, imply a reduction in support for Wales as the UK Government proposes to develop an equivalent national programme for regional aid
- Regional policy at a European level provides wider benefits beyond financial support. The opportunities to share experience and build partnerships are major assets of the current system
- Bureaucracy needs to be reduced and the programmes need to be more flexible
- The focus on the Lisbon agenda and job creation in both proposals is supported
- The ability to support infrastructure projects is important
- Levering in sufficient private sector funding is a challenge
- The future of state aids is a related, and significant, issue

6. Key issues from the 26 February meeting:

- Greater support for infrastructure projects such as broadband, tourism infrastructure and town centre regeneration, was welcomed.
- Despite some improvement it was still difficult to lever funding from the private sector in Wales. Concerns were raised about where match funding would come from if the economic situation worsened in the future.
- Members expressed concern about the UK Government's commitment to regional policy. The DTI responded by pointing to the joint PSA objective set by the Office of the Deputy Prime Minister, DTI and HM Treasury for growth in the regions.
- Uncertainty remained about the level of funding that Wales would benefit from under either of the proposals.
- There was concern about suggestions that an increase in the net contribution to the EU budget would be less money for domestic spending and a consequential reduction in funding for Wales.

- Members noted that Westminster could not give the same length of guarantee as the Commission. Devolution also meant the potential of two opportunities for the Government guarantee to be broken in the future, at both national and regional level. It was also noted that the UK's domestic budget could be affected by factors such as spending due to the war in Iraq.
- It was observed that the UK Government's comment that EU funding was 'the icing of the cake' of regional policy was somewhat at odds with its emphasis on the impact on the UK budget.
- Members were interested in how the future operation of State Aids would be affected.
- There was a feeling that Wales had something to give to Europe as well as receiving funding.
- There was discussion of the process for defining NUTS 2 regions and regional boundaries and scope to change these in the future. The Commission stated that Member States had responsibility to decide regions within the parameters of the statistical criteria.
- Some disappointment was expressed by members that the UK Government focus on newer Member States inferred less concern with the needs of existing Member States, particularly when the cohesion report showed great disparity between the UK regions. The UK put 1.6 Euro into the EU budget for every 1 Euro it received, so the current budget situation was not in the UK's favour.
- Confirmation was sought on whether the UK Government guarantee would cover up to 85 per cent of funding for statistical effect regions - no reference was made to this in the Ministerial statement of 11 December. Also in the response to the Committee of 19 December there were conflicting statements about the proposed funding arrangements and the role of the Barnett formula, and whether any 'topping up' of funding would be in addition to the Barnett formula. If it came within the block grant it would not respect the needs of Wales. Mark Parkinson said that HM Treasury would base its calculation on the existing eligibility criteria but on the basis of an expanded EU 25, and if the figures justified it there would be a top-up to the block grant.
- Members requested further information on the UK Government's position in relation to whether or not it would recognise the statistical effect regions concept or make a direct bid for transitional relief.
- The First Minister noted that if the UK and other Member States were successful in limiting the level of EU GDP to 0.1 per cent, then after funding the Common Agricultural Policy there would be little money left for regional policy.

#### 7. Key issues from the 13 November meeting:

- There was interest in the level of financial support that Wales could expect under the new system.
- There was concern about the dynamic of discussion by Member States on the future of statistically affected regions and who would be driving it. Many existing Member States would not have an interest because their regions did not qualify at this stage and most accession states would not fit into this category until 2010.

#### 8. Key issues from the 26 June meeting:

- Exact figures for the costs of any of the proposals were unclear at this stage, but the possible impact on the UK's net contribution to the EU budget was one of the key issues influencing the UK negotiating position.

- There was concern that the funding guarantee from the UK Government was conditional on their proposals being accepted by the EU. If a different proposal was taken forward a different set of financial arrangements would need to be agreed.
- It was felt that in Wales there was currently a stronger alignment between domestic policy and EU structural funds compared to England and that this meant that some of the frustrations with Commission policy referred to by the UK Government were not felt in Wales.
- Welsh businesses might support repatriation because they saw the current focus skewed away from transport and infrastructure, premises and sites. But there were concerns that the UK proposals should still support other policy imperatives for community initiatives in Wales.
- The Welsh Local Government Association and some local councils had also expressed concerns about whether the UK Government proposals would help reduce the gap between the economy of South East England and that of Wales.
- There was concern about the security of the programme: even if funding was over 3 or 5 years, it would be at risk from political factors such as change of policy or change of government, in contrast to the seven year programmes guaranteed under the EU system.
- There were questions about who would develop regional policy in practice under the proposed arrangement and concerns that repatriation might lead to greater centralisation with decisions being taken at an all-Wales rather than a local level.
- There were concerns about how benchmarking would be possible under the proposed arrangements. The current system allowed for comparisons across Member States, but this might be more difficult with Member States operating different systems.
- Reforms to State Aids would be required and there were concerns about what these would be
- There was some concern that although the proposals were mainly jointly by several departments, one of the major drivers was Treasury concerns to reduce the financial burden to the UK.
- There was concern that the Barnett formula arrangement would not necessarily be flexible enough to deal with payments under this system.
- The current Structural Funds programme had brought benefits for Wales' interaction and links with Europe and these could be at risk under the proposals, which did not make a clear case for the same benefits.

Contact point

Members' Research and Committee Services

## Response to UK Government consultation on reform of regional policy

At a joint meeting on 26 June the European and External Affairs Committee and the Economic Development and Transport Committee discussed the issues raised in 'A modern regional policy for the United Kingdom'. This letter summarises the Committees' discussion.

First of all, Members are concerned that at this stage it is difficult to see precisely what the proposals mean in practice. Estimates vary widely on the impact that these and the European Commission proposals would have on the level of funds available to support regional development both within the UK and elsewhere in an enlarged Europe. Without more reliable figures it is difficult to make any informed assessment of the impact of the alternative proposals.

Members are concerned about the level of confidence that could be had in the proposed system. Under the present arrangements EU programmes are laid down for a 7 year period and beneficiaries can have confidence that there will be no major changes imposed on them in that period. However, funding within the UK is planned for much shorter periods of time – normally 3 or, at best, 5 years and this must bring considerable uncertainty about the later years of any programme. On top of this any programmes will also be subject to political factors such as changes of policy and changes of government. Both of these will have a very negative effect on the replacement schemes.

We have concerns about how regional policy would in practice be developed under the proposed arrangement and, particularly, whether the objective of de-centralising decisions within Europe might result in greater centralisation within the UK. While decisions might be passed down from the EU level, there is a very great concern that they would not pass beyond the UK level or even end up being taken at an All-Wales rather than a local level.

We have concerns about how, under the proposed arrangements, it would be possible to make meaningful comparisons between the different member states. Under the current system this is relatively straightforward, but it would be very much harder, if not impossible with Member States operating different systems.

The papers recognise that alongside these proposals there would need to be a reform of the State Aid regime. Members are concerned about what this would mean in practice and felt it was difficult to come to meaningful conclusions on the structural fund issues without knowing what was going to happen to State Aids.

There is also concern amongst some Members that, while the proposals have been presented jointly by three Departments, a key driver appears to be a Treasury desire to reduce the financial contribution that the UK makes to the EU. Other Members did not share this view and felt that there could be benefits for Wales from the proposals and that a reduction in the overall contribution to the EU might also have

advantages for Wales.

Alongside this there are concerns that the present arrangements, under the Barnett formula, may not be flexible enough to deal with payments under this system.

Members recognise the very real benefits that the existing Structural Funds programme had brought to Wales both through the potential for massive investment that they had facilitated but emphasised that equally-valuable were the links that had been forged with other Regions of Europe. Members are particularly concerned that the proposals did not seem to recognise these latter benefits.