

National Assembly for Wales
Enterprise and Business Committee

Draft legislative proposals for
EU structural funds 2014 - 20

February 2012



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Enterprise and Business Committee

The Committee was established on 22 June 2011 with a remit to examine legislation and hold the Welsh Government to account by scrutinising its expenditure, administration and policy, encompassing economic development; transport and infrastructure; employment; higher education and skills; and research and development, including technology and science.

Current Committee membership



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Welsh Conservatives
Monmouth



Byron Davies
Welsh Conservatives
South Wales West



Keith Davies
Welsh Labour
Llanelli



Julie James
Welsh Labour
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Mid and West Wales



Leanne Wood
Plaid Cymru
South Wales Central

Draft Legislative Proposals for EU Structural Funds 2014-20:

Conclusions and recommendations by the National Assembly for Wales Enterprise and Business Committee

1. The Enterprise and Business Committee has considered the European Commission's draft legislative proposals for EU Structural Funds for 2014-20 with the aim of making recommendations to the Welsh Government on what it should prioritise in seeking to shape the UK Government position in the Council of Ministers. We are also seeking to influence negotiations on the draft legislative proposals through Welsh Members of the European Parliament.
2. At this stage, we are not proposing to report on the preparations in Wales for implementing the next round of funding programmes, although this is a key issue that we may scrutinise in due course.
3. During this short inquiry, we spoke to officials from the European Commission's Directorate General of Employment, Social Affairs and Inclusion and Directorate General of Regional Policy (DG Regio); Welsh Members of the European Parliament; key representatives from the private, public and voluntary sectors in Wales – Wales Council for Voluntary Action, Welsh Local Government Association, Federation of Small Businesses, Higher Education Wales and Higher Education Funding Council for Wales; and the Deputy Minister for Agriculture, Fisheries, Food and European Programmes. We also received evidence from six other organisations.
4. Our conclusions and recommendations are set out below.

General observations

5. On the whole, witnesses to our inquiry were broadly satisfied with the European Commission's draft legislative proposals, which aim to:
 - create a stronger strategic framework for the next programming period of Structural Funds, focusing on delivering the overarching objectives of the Europe 2020 strategy for “smart, sustainable and inclusive growth”;

- shift the implementation of Structural Funds towards a focus on achieving long-term, beneficial outcomes and results for citizens rather than outputs;
- strategically concentrate resources; and
- achieve greater coherence, simplification and streamlining across the different funds.

6. We believe the draft legislative proposals provide a positive strategic framework for economic investment in Wales for 2014-2020, in particular the stronger emphasis on performance and outcomes, simplification and streamlining of eligibility rules, integrating activity across the funding streams, the strengthening of partnerships and the scope for community-led local development.

We therefore congratulate the European Commission on its draft proposals and urge the Welsh Government to support and defend them from substantial amendment following negotiation at EU level – although subject to the issues we raise in paragraphs 8 to 25 below.

7. It is generally believed that in the next programming round of Structural Funds, West Wales and the Valleys will continue to have Less Developed Region status and East Wales will qualify for support as a More Prosperous Region. The higher education sector in Wales was adamant that the next round of Structural Funding should be used to support transformational, long-term economic and social change in Wales towards a high value, knowledge-based economy. It argued that prioritising research and development, knowledge exchange and innovation and building synergies between EU Structural Funds and EU research funding (Horizon 2020) was pivotal to that shift in economic transformation. The benefits of this approach were justified in terms of encouraging inward investment, helping to attract and retain ‘anchor companies’ and helping combat unemployment and social/income imbalances across Wales. The Deputy Minister broadly agreed with this argument.

8. We support the European Commission’s proposal for regions to draw up regional innovation strategies based on “smart specialisation” as a condition for accessing Structural Funds. Wales is developing the ground in terms of the draft Science Strategy for Wales and the Welsh Government’s higher education strategy.

We urge the Welsh Government to formulate, in collaboration with the higher education and business sectors, an innovation strategy for Wales that identifies how the Welsh economy can be transformed through prioritising investment in skills, research and technological development, including renewable technologies, and how these investments can generate vibrant local supply chains to support them. We also recommend that the strategy should be peer reviewed and benchmarked against international best practice.

9. The Welsh higher education sector also made the case for stronger alignment between the future Welsh EU Structural Funds programmes and Horizon 2020 programme, the EU's Framework Research Programme for 2014-2020 – a suggestion with which the Deputy Minister expressed his agreement. In particular, the higher education sector argued that future EU Structural Funds programmes should be used to develop research capacity with a long-term view to improve the international competitiveness of Welsh academic research. We recommend that the Welsh Government should align its priorities for the next round of EU Structural Funds with those in the EU's Horizon 2020 strategy to build greater capacity within higher education research and development priorities, and to attract research “stars” to Wales. We further recommend that the Welsh Government should contribute to the negotiations on the Horizon 2020 proposals to help secure maximum benefits for Wales.

Areas of concern

10. There are a number of areas where we believe the Welsh and UK Governments should seek changes to the draft proposals or secure reassurances that Welsh interests will be upheld.

EU Budget and allocation to Regions

11. The wider EU Budget debate and Eurozone crisis could both have an impact on the funding available for Structural Funds and therefore the funding that could come to Wales. The view expressed by the UK Government is that the EU budget should be reduced, particularly in wealthier Member States, where its aim is to eliminate Structural Funds altogether. Wales currently receives some €2 billion from the existing Structural Funds. The European Commission's new proposals in large

part provide the overarching strategic framework and tools through which Welsh strategic objectives could be achieved, provided that sufficient resources at EU and national level are made available to deliver the new and linked programmes.

We urge the Welsh Government to defend the European Commission's proposed categorisation of regions; the availability of Structural Funds for the poorest regions, irrespective of Member States' Gross Domestic Product; the availability of transitional funding for regions growing out of Convergence funding; and sufficient budget to deliver the Europe 2020 priorities.

Partnership Contracts

12. The European Commission's proposals would establish a new structure – a Partnership Contract – between the Commission and each Member State. This would set out arrangements to ensure alignment with the Europe 2020 strategy, including a requirement for Operational Programmes to focus on delivering actions agreed in the annual Europe 2020 National Reform Programmes. We believe it is important that Operational Programmes for each of the different EU programmes in Wales meet the needs of those regions and that they inform the strategic direction set in the UK Partnership Contract, as opposed to encouraging any move towards greater centralisation of control at a UK level. We also believe that the third sector should be fully engaged in Partnership Contract arrangements at a UK level.

We recommend that the Welsh Government should develop, in consultation with its partners, a specific Welsh chapter to the UK's Partnership Contract with the European Commission that sets out the priorities and needs of Wales.

Conditionalities and outcomes-focused approach

13. In its explanatory memorandum on the EU Structural Funds the UK Government has said that macro-economic conditionalities (suspension of funds for regions within Member States in receipt of EU bailouts and not sufficiently responsive to the EU's recommendations) will not apply to the UK, which therefore means that Wales will not be

affected. When we asked Commission officials to confirm this understanding they were unsure.

We recommend that the Welsh Government should seek clarification on whether macro-economic conditionalities will apply to the UK, and if they do, should seek to change the proposals to remove the potential future threat that Wales could lose funding as a result of failure at UK level to comply with those macro-economic conditionalities.

14. Officials from DG Regio believed the shift from an input/output approach to managing and implementing Structural Funds towards a focus on outcomes and results would be an “evolution” as opposed to a “revolution” for Wales. We support the Commission’s new approach, but we are unclear on how differently the new performance framework for capturing outcomes might look. Further, we would like clarification on how a more complex monitoring and evaluation framework would be funded.

We recommend that the Welsh Government should seek clarification on the Commission’s expectations for a performance framework that would enable project sponsors and managing authorities to measure and evaluate outcomes as opposed to outputs. We also support the call from the Welsh higher education sector that the performance framework should include indicators that can measure impacts and outcomes such as research capacity and innovation.

15. Evidence submitted by WLGA and Powys County Council called for clarification of the proposed performance reserve mechanism, particularly the potential impact that such a reserve could have at local delivery level. The performance reserve equates to five per cent of the total allocation to each Common Strategic Framework and Member States, but it was argued that the regulation is ambiguous as to whether this would be applied at the UK level or programme level, and how it would be managed within the UK. For example, if money is not allocated, it is unclear whether it would go back into the EU Budget, or whether it would remain in the Cohesion Policy budget and be redistributed to other Member States where programmes have performed well.

We recommend that the Welsh Government should seek clarification on the potential impact of the proposed performance reserve mechanism.

Thematic concentration

16. The Commission's proposals focus on eleven thematic objectives and the concentration of funding on a limited number of investment priorities within those objectives. Operational Programmes will set minimum thresholds for spending on a number of the core priorities and will aim to identify more strategically where resources are concentrated rather than spreading resources thinly over a wider range of sectors and areas. We note the Welsh Government's concern that the European Commission's draft proposals for thematic concentration and ring-fencing could be "too prescriptive", and that the decision on how much spending should be allocated to the identified themes should rest with the managing authority, not the European Commission. Yet we also note that DG Employment said that Welsh programmes were already achieving the minimum thresholds set in the draft proposals.

17. In our view, if Wales is already achieving the minimum thresholds for thematic concentration without developing a smart and sustainable economy, those thresholds may need to be maintained or even exceeded.

We recommend that the Welsh Government should carry out a thorough impact assessment of the European Commission's proposals for thematic concentration thresholds to see how these would affect spending levels in Wales.

Instruments to support integrated development

18. The European Commission has indicated that it would like to see the production of community-led development strategies on a multi-fund based approach, integrating, for example, European Regional Development Fund (ERDF), European Social Fund (ESF) and, potentially, the rural development and fisheries fund. We welcome this complementary and mutually reinforcing approach, which should lead to more streamlined management and implementation of the funds on

the ground, as well as improving the local profile and ownership of the new programmes.

19. We anticipate that mobilising these funds in an integrated way should be less administratively burdensome for beneficiaries on the ground.

We recommend that the Welsh Government should seek clarification on how integration would work in terms of the application of different intervention rates between the different funds for actions supported.

20. The draft regulations introduce an optional new “instrument” - Joint Action Plans – that can be set up within Operational Programmes. This is an innovative approach and we are interested to see how this could be used in practice in future programmes, both as a simplification measure in terms of project management and as a delivery tool that is conducive to greater partnership working at a regional level between different local authorities.

21. We also welcome the additional clarity on financial engineering instruments included in the draft regulations, and note that Wales is making use of such instruments in the current 2007-2013 programming period. The National Assembly’s Finance Committee is looking at these issues as part of its inquiry into the effectiveness of European Structural Funds in Wales.

Focus on supporting Sustainable Urban Development

22. The draft Common Provisions Regulation specifies a ring-fencing of five per cent of funding at Member State level to support integrated actions for sustainable urban development. It is not clear, but we assume this ring-fencing will be determined at a Member State (UK) level rather than at an Operational Programme level, in which case Wales may not receive its fair share of the allocation.

We recommend that the Welsh Government should negotiate for maximum flexibility in terms of the definition of “urban areas” and for managing authorities, rather than Member States, to direct how and where the five per cent of funding for sustainable urban development will be spent.

23. Given that we have recently reported on the regeneration of town centres, we would like to see this facility being used to support town centre regeneration in Wales. We also wish to see the Welsh Government utilise this funding in correlation with its emerging city region approach to economic development.

24. We support the WLGA's argument that EU funds could be used to maximise investments in infrastructure. We are aware that the Welsh Government has in the past rejected suggestions to use future EU Structural Funds to support rail electrification projects in Wales on the grounds that this should be a UK Government responsibility. Our attention was also drawn to Article 3 of the Draft ERDF Regulation, which states that "in more developed regions, the ERDF shall not support investments in infrastructure providing basic services to citizens in the areas of environment, transport, and ICT."

We recommend that the Welsh Government should seek to maximise the potential and flexibility of Structural Funding to benefit capital infrastructure projects in Wales.

Making the case for Wales

In order that Welsh concerns and needs are addressed during the coming months of negotiations, we recommend that the Welsh Government should continue to be involved in key discussions at the UK level.

We also endorse the actions of the Deputy Minister for Agriculture, Fisheries, Food and European Programmes in ensuring that Wales's voice is represented in the European Parliament and at the General Affairs European Council.

Further, we fully support a team Wales approach to discussions and negotiations at UK and EU levels that fully engages the higher education, private and voluntary sectors.

25. Finally, we are aware that the discussion and negotiation on the draft legislative proposals will continue for the months to come. We therefore welcome the Deputy Minister's suggestion that he report again to our Committee so that we can pursue our scrutiny of this very important issue.

Addendum

26. During this inquiry, we were also referred to the European Commission's Connecting Europe Facility proposals, which are separate from EU Structural Funds, and which would provide support for three Trans-European Networks – transport, energy and telecommunications/ digital. A budget of €40 billion has been proposed and a list of pre-identified projects includes upgrading the Swansea to London rail line as part of the Dublin-London-Paris-Brussels corridor. Electrification of the line is not explicitly mentioned in the proposals, although we assume that this could fall within the scope of the Connecting Europe Facility funding.

We recommend that the Welsh Government should, in partnership with the UK Government, investigate funding for electrification of the Swansea to Cardiff rail line through the Connecting Europe Facility.