

## EU Policy Update (EU2011.04):

### Future EU Structural Funds 2014-2020

Updated: 10 October 2011

#### Summary of main points in proposals

#### Introduction

On 6 October the European Commission published its package of legislative proposals for the future **European Union (EU) Cohesion Policy (or EU Structural Funds) for 2014-2020**<sup>1</sup>.

In broad terms the legislation will determine (taking account of the parallel discussions on the future Multi-Annual EU budgetary framework for 2014-2020<sup>2</sup>) **how much funding and the types of support Wales will qualify for from the EU Structural Funds after 2013**.

The legislation will also determine the broad priorities for future programmes, the types of activities that can be supported, requirements in terms of management and evaluation of programmes, as well as other requirements placed on national governments (UK level) in terms of receiving the funding.

#### What will Wales qualify for?

Based on the draft texts West Wales and the Valleys would continue to qualify for the most intensive aid, as a “Less Developed Region”, with GDP less than 75% of

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<sup>1</sup> Full details, including background presentations, available from **DG Regional Policy web-site**

<sup>2</sup> Published on 30 June 2011 – the proposals for the budgetary framework of the EU for 2014-2020. See **EU Policy Update (EU2011.02)** for further background on this.

the EU average (based on a three-year “reference period” using regional data – for 2006, 2007 and 2008 – that is already available).

East Wales would also qualify for support, being categorised as a “More Prosperous Region”, covering regions with GDP greater than 90% of EU average.

#### The Regulations

One major change with the past is the inclusion of a **Common Provisions Regulation**, which will apply not only to the two EU Structural Funds but also to the Rural Development funding instrument (which was due to be published on 12 October as part of the proposals for reform of the Common Agricultural Policy (CAP)) and the new European Maritime and Fisheries Fund (EMFF) for which proposals are due on 30 November<sup>3</sup>.

This change reflects an attempt by the Commission to take a common and more strategic approach to all the main EU funding instruments, linking them directly back to the EU’s overarching growth and jobs policy, Europe 2020 (see **Background section** below for more on this), and the Growth and Stability pact (which sets the parameters for macroeconomic policy in the Eurozone). This means concentration of resources on a limited number of thematic priorities, focusing on delivering results, the introduction of a number of “conditionalities” on the EU funding that Member States co-manage, seeking to improve efficiency and effectiveness of the policy, and simplifying and streamlining delivery and implementation.

The Commission has also proposed a number of specific actions aimed at strengthening the urban dimension of the policy. Less specific attention (beyond the Rural Development funding under CAP) is given to rural areas in the draft regulations.

In addition to the Common Provisions Regulation, the

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<sup>3</sup> This replaces the “General Regulation”, which for the 2007-2013 only covers ERDF and ESF.

other regulations of most relevance to Wales are:

- **European Regional Development Fund (ERDF) Regulation** (21 pages)
- **European Social Fund (ESF) Regulation** (21 pages)
- **Territorial Co-operation Regulation** (35 pages)

## Main elements in the proposals

There are a number of elements that “jump out” as of particular interest to Wales:

- Focus of the EU Cohesion Policy on two core objectives:
  - **Investment for Jobs and Growth** (the regional programmes)
  - **Territorial Co-operation** (through Cross-Border; Transnational and Inter-regional programmes)
- **Investment for Jobs and Growth** identifies three categories of region
  - **Less Developed Regions** <75% EU average GDP (as already noted **West Wales and the Valleys** stands to qualify under this category)
  - **Transition Regions** (75%-90% EU average GDP) – with special provisions for current Convergence regions that go above the 75% threshold
  - **More Developed Regions** >90% EU average GDP (**East Wales** falls into this category)
- **Three-year GDP reference period** used to determine the categories regions fall into: **2006, 2007, 2008** (data already available)
- Focus of future programmes on a **limited number of thematic priorities directly linked to delivering Europe 2020**: there are 11 in total, four for ESF (including social inclusion), the rest for ERDF. These are focused primarily on (i) jobs and growth in particular support for SMEs,

research/innovation, and (ii) climate change and sustainability. The regulations propose minimum allocation of funding to each of these (with more flexibility in “Less Developed Regions”)

- 20% of ESF funding to **combat poverty and social exclusion**
- Priority to supporting **social innovation actions** (and use of financial engineering) through ESF
- **Sustainable Urban Development**: a strong emphasis on supporting the urban dimension with three specific actions identified: (i) at national level (Member State – i.e. UK) at least **5%** of Structural Funds allocations to be **ring-fenced to support integrated actions for sustainable urban development**, delegated to cities to manage through **Integrated Territorial Investments**. (ii) an **Urban Development Platform** to be established at EU level to promote capacity-building/networking between cities, with a maximum of 300 cities (up to 20 per Member State) to be included in a list of cities to participate in this. (iii) **Innovative Actions** (managed at EU level) in field of Sustainable Urban Development, funded through up to 0.2% of the annual ERDF allocation.
- **Local Development Strategies**: for EU Structural Funds could include urban and rural actions. Rural Development will continue to support LEADER.
- **Common Strategic Framework (CSF)** to be prepared at EU level (draft to be published by the Commission in January 2012) setting out key objectives at EU level through the new EU Structural Funds
- Each Member State (i.e. UK level) to prepare a **Partnership Contract**, to deliver the EU level agreed objectives of the CSF, linking to wider commitments of each national government to deliver Europe 2020 strategy (set out in their National Reform Programmes and in country recommendations agreed each year by the Council

of Ministers). The Commission to adopt a “**code of conduct**” for Partnership Contracts

- Introduction of **ex-ante conditionalities** that must be satisfied before Operational Programmes can be agreed – these link to Europe 2020 and compliance with existing EU legislation (e.g. targets for delivering energy efficiency savings)
- Introduction of **macro-economic conditionalities** (“stick”): the threat that Structural Funds will be suspended or cancelled where Member States fail to deliver agreed macro-economic targets (e.g. reduction of public deficits), and also giving **the Commission the power to amend Member States’ Partnership Contracts**
- **Performance reserve 5%** of total budget to be allocated in 2019 to reward best performing regional programmes. As part of this the Commission also has a power to recommend to Member States to take actions to address underperformance in parts of their programmes, with threat of suspension of interim payments.
- Inclusion of a list of “common indicators” for ERDF (including territorial co-operation) and ESF
- **Potential for Member States to reallocate up to 2% of funding between the “categories” of regions** (e.g. from Less Developed Regions allocation to More Developed Regions)
- **Annual Implementation Reports (from 2016 onwards), an annual meeting between Member States and the Commission, and an annual sign off of accounts**, with rolling three-year requirement on maintenance of supporting documents
- **Simplification of costing options** for activities supported, e.g. for ESF a flat rate of 40% to be applied to eligible direct staff costs to cover the remaining eligible costs of a project/initiative

## Negotiations process in Brussels

The Commission gives a timeframe of **12 months** from adoption of the legislative proposals through to agreement of Operational Programmes (including agreeing the Common Strategic Frameworks and Partnership Contracts).

The draft proposals will be adopted through the “**ordinary legislative**” procedure (i.e. co-decision). This requires agreement between Council of Ministers and European Parliament on the draft proposals, with the European Commission acting as broker. There are potentially up to three readings in this process, the final reading being a “conciliation” negotiation. In terms of timing, if everything ran smoothly the earliest adoption date would be summer of 2012. **A more likely scenario is agreement in the first half of 2013.**

## Relevance to Wales

Wales currently receives around **£1.9 billion** from the EU Structural Funds for the period 2007-2013. The bulk of this (£1.7 bn) goes to the West Wales and Valleys Convergence Programme, which covers two thirds of the territory of Wales and 15 local authority areas in Wales the South Wales valleys and rural West and North West Wales. Around £110 million goes to the East Wales Regional Competitiveness and Employment programmes, covering the rest of Wales (Cardiff, Vale of Glamorgan, Flintshire, Wrexham, Powys and Monmouthshire).

In addition to this, Wales also qualifies for a number of “Territorial Co-operation” programmes, which support collaborative initiatives between organisations from across different parts of Europe covering a range of social, environmental and economic challenges<sup>4</sup>, including:

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<sup>4</sup> Refer to **Welsh European Funding Office (WEFO) web-site** for more details on these various programmes.

- Ireland/Wales Cross Border Programme
- Atlantic Area Trans-national Programme
- North-West Europe Trans-national Programme
- Inter-regional (IVC) Programme

## Background context to proposal

During the period 2008 and up to the first half of 2011 the European Commission undertook an extensive preparatory phase for the legislative proposals, including various studies, reports and consultations, most notably through the publication of the Fifth Cohesion Report in October 2010<sup>5</sup>.

### Europe 2020

This debate has run in parallel with the preparation of the **Europe 2020** strategy, the overarching “economic development” strategy of the EU, agreed in June 2010. This strategy has a headline goal to deliver smart, sustainable and inclusive growth across the EU over the next decade.

**Europe 2020** is being delivered through a combination of:

- **EU level action:** through the EU budget and other measures
- **National (and local/regional) level action:** each Member State is required to produce a **National Reform Programme** each year setting out its priorities and objectives for the coming year in terms of delivering the overarching Europe 2020 goals.

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<sup>5</sup> See **DG Regional Policy web-site** (European Commission)

The European Commission has sought to make a clear and direct **strategic link between the actions financed by the EU and delivery of the European 2020 strategy**, and this was set out in the draft legislative proposals for the future Multi-Annual EU Financial Framework for 2014-2020, published on 30 June 2011.

This has direct implications for the focus and shape of the EU Structural Funds programmes in a number of ways including the proposed thematic priorities of programmes.

There is one area in particular that emerged during the last 18 months directly linked to this, as part of a broader goal of improving the effectiveness and impact of the Structural Funds. This is the introduction of stronger “conditionalities” (primarily “sticks” rather than “carrots”), one of which is to link the commitments Member States sign up to in their **National Reform Programmes** under Europe 2020 and as part of the **Growth and Stability Pact** for the Eurozone directly to the funding given to Member States through the EU Structural Funds. Member States failing to deliver on these commitments would face suspension or cancellation of EU Structural Fund allocations, with direct consequences on the regional and national programmes in their territory.

### Calls for a strong EU Cohesion Policy

During this period (2008-2010) the European Parliament, in particular the Regional Development Committee (under the Chair of former Regional Policy Commissioner Professor Danuta Hübner) defended the need for an EU wide and strong EU Cohesion Policy, adopting a number of resolutions on the future of EU Structural Funds<sup>6</sup>. This was in face of calls from a number of quarters (including within parts of the European Commission as well as some Member States) for a more sectoral approach to economic

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<sup>6</sup> **EP resolution on the Fifth Cohesion Report (July 2011); EP resolution on Cohesion Policy after 2013 (October 2010); EP resolution on the Cohesion policy and Europe 2020**

development policy.

The Parliament and Committee of the Regions have expressed strong reservations about introducing “conditionalities” that would “punish” regions for factors beyond their control (i.e. macroeconomic policy determined by national governments), which means this will be an important area of discussion in the coming months given the Commission’s proposals.

## Contributions from Wales in this debate

The National Assembly for Wales was actively involved in these discussions during the Third Assembly through the work of the European and External Affairs Committee (EEA Committee) which undertook a **two-year inquiry**, taking evidence from senior politicians and officials in Brussels (including Danuta Hübner MEP, Janusz Lewandowski EU Commissioner for the EU Budget and all four Welsh MEPs)<sup>7</sup>.

The EEA Committee published **two reports** (December 2009 and July 2010 – widely circulated in Brussels), which defended the continuation of an EU-wide policy for all regions (including poorer regions in “richer” Member States), as well as agreeing with a stronger focus of the policy on delivering the Europe 2020 priorities. The Welsh Government and other Welsh stakeholder organisations gave evidence to the EEA Committee, as well as submitting formal responses to the European Commission’s consultation launched through the publication of the Fifth Cohesion Report<sup>8</sup>.

All of this work demonstrated a high level of agreement amongst stakeholders in Wales, cross-party support in debates on the EEA Committees work, and amongst Welsh

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<sup>7</sup> See **European and External Affairs Committee web-pages**. Two reports were published: **Interim Report**, December 2009 and **Second Report**, July 2010 both receiving responses from the Welsh Government (First Minister).

<sup>8</sup> See **Fifth Cohesion Report web-pages DG Regional Policy**

MEPs, on the future of the EU Structural Funds.

## Enterprise and Business inquiry

Under the Fourth Assembly the Enterprise and Business Committee, agreed at its meeting on 6 October, to undertake an inquiry on the draft legislative proposals for the future EU Structural Funds<sup>9</sup> to enable the Assembly to actively contribute during the formal negotiation phases that will take place over the next 12-18 months.

## UK Government position

***The UK Government will publish an Explanatory Memorandum (EM) in the next few weeks setting out its reaction to the Commission’s proposals. This section will be updated accordingly. However, the new EM is likely to restate the position of the UK Government set out in its response to the Fifth Cohesion Policy Report, which is summarised below. References are also made to other relevant UK Government EMs.***

The UK Government EM on the Fifth Cohesion Policy accepts the need for an EU-wide policy until 2020, including the most intensive aid support, Convergence funding, being available to poorer regions in “rich” Member States (e.g. West Wales and Valleys in UK). However, the UK Government favours re-focusing resources on the poorest Member States, and also significantly reducing the overall allocation to Cohesion Policy<sup>10</sup>.

In its EM on the EU Budget Review and the recently published Multi-annual Financial Framework (MFF) it calls for a substantial reduction in the Commission’s proposals<sup>11</sup>. In recent weeks eight Member States

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<sup>9</sup> See **Enterprise and Business Committee web-pages** for scoping paper and terms of reference

<sup>10</sup> **UK Government EM on 5<sup>th</sup> Cohesion Report**

<sup>11</sup> **UK Government EM on MFF**

(including the UK Government) signed a “non-paper” calling for a significant reduction in the proposals, with Germany calling for around a 10% reduction. With EU Structural Funds and the Common Agricultural Policy (CAP) forming the two largest elements of the budget, these eight Member States would be potentially vulnerable to cuts in the overall funding package.

## Welsh Government position

As noted above the Welsh Government set out its position on the future of EU Structural Funds in its response to the consultation on the 5<sup>th</sup> Cohesion Report (February 2011)<sup>12</sup>. This stated that that “Cohesion policy needs to be adequately and appropriately resourced to support the achievement of Europe 2020 objectives”, as well as underlining the Welsh Government’s support for an EU wide Cohesion policy for all regions, focused on poorest regions (including those in richer Member States), with provision of “fair transitional support to regions moving out of Convergence”.

The Welsh Government also formally responded to the two reports coming out of EEA Committee’s inquiry, agreeing with all of the recommendations.

On 22 September, Deputy Minister for EU Funding Programmes, Alun Davies gave evidence to the Enterprise and Business Committee outlining the key concerns for Wales, and also explaining how he will work through the Joint Ministerial Council (Europe) to influence and shape the UK Government negotiating position in Brussels.

The Deputy Minister has also issued a number of statements including reference to EU Structural Funds, the most recent at an Assembly plenary session on 4 October, where he noted his intention to work in partnership with Welsh stakeholders and the Assembly to present a strong case for Wales in the negotiations

<sup>12</sup> See [WEFO web-site](#)

over the coming year.

## Progress of dossier in EU Institutions

*This section will be updated as the negotiations take place in Brussels and the official positions of the EU Institutions become clear. For this update (1 July 2011) the various positions of the European Parliament etc. on the EU Budget Review are included.*

### European Parliament:

There will be two lead Committees in the European Parliament on the future EU Structural Funds:

- **Regional Development Committee (Chair, Polish MEP Professor Danuta Hübner, former EU Commissioner for Regional Development):** there are two Welsh MEPs on this Committee, full member **John Bufton MEP** (UKIP) and substitute **Derek Vaughan MEP** (Welsh Labour).
- **Employment Committee (French MEP Pervenche Beres):** there are no Welsh MEPs on this Committee

The European Parliament has already nominated the Lead Rapporteurs on each of the elements of the draft legislative proposals (those relevant to Wales are listed):

- **Common Provisions Regulation:** Dutch MEP Lambert van Nistelroij (European People’s Party, EPP) and German MEP Constanze Krehl (Socialists and Democrats, S&D)
- **ERDF Regulation:** Polish MEP Jan Olbrycht (EPP.)
- **ESF Regulation:** French MEP Elisabeth Morin-Chartier (EPP)

Once the Committees have agreed the draft reports (with various amendments to the original proposals) these will be debated and voted on in full plenary session. The timeframe for adoption is unclear at this

stage but could be March-May 2012 for adoption in Committee and potentially adoption in plenary in June or July. Should the dossier go to second or third reading then adoption of the package could run as late as mid-2013.

### Council of Ministers:

The lead in negotiations will be the General Affairs Council, whilst the Employment Council will focus on the ESF proposals. A first discussion on the draft proposals was scheduled to take place on 11 October (at General Affairs).

The technical work will be undertaken by working groups, who will seek to reach agreement on non-controversial elements of the proposals. Formal agreement will be by Ministers (Department of Business Innovation and Skills will lead)

The Polish EU Presidency is seeking to get broad agreement on the management and programming arrangements before the end of its presidency (i.e. 31 December 2012), to enable the Commission to prepare the Common Strategic Framework (draft is expected to go out to consultation in January) and informally start discussing Partnership Contracts and Operational Programmes with Member States.

### Others:

The Committee of the Regions (CoR) is the representative body for regional and local authorities in Brussels. It will be consulted for its views on the draft legislative proposals but has no direct powers to change the texts (or block their adoption). This is the same for Economic and Social Council (ECSC), the second consultative body in Brussels, which represents sectoral interests (e.g. business, voluntary sector).

The CoR has already appointed rapporteurs for the proposals:

- **Common Provisions Regulation:** Catuscia Marini (S&D), President of Umbria Region, Italy
- **ERDF Regulation:** Dr Michael Schneider (EPP), European affairs state secretary Saxony-Anhalt,

Germany: ERDF regulation

- **ESF Regulation:** Konstantinos Simitsis (S&D), Mayor of the City of Kavala, Greece

Councillor Chris Holley, the Leader of the City and County of Swansea, is a member of the Territorial Cohesion Committee (known as the "COTER Commission"), which is the lead Committee in the CoR for EU Structural Funds.

### Further information

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